

## SOUTH WEST ECONOMY PROJECTIONS: SPRING 2007

This bulletin presents our latest output and employment projections for the South West of England. The projections are derived from economic models of for the South West which have been developed by the South West Business Economy Module, part of the South West Observatory. Our projections are revised on a twice-yearly basis to reflect changes to international and national economic conditions and prospects, and the availability of new regional data. Methods and models are also amended periodically so that they continue to make best use of available data. The latest projections are based on information available as of April 2007, and cover the period from 2006-2014. The main changes since the Autumn 2006 edition reflect new regional data, revised national forecasts, and methodological changes.

The projections show the South West benefiting from continued strong growth in the global and UK economies. Regional nominal GVA is projected to grow by an average annual rate around 5.9 per cent during the projection period, marginally above the national rate, although growth in GVA per head is projected to lag slightly behind that for the UK as a whole. Growth in employment is projected to add around 400,000 additional employee jobs to the South West economy by 2014. Projected growth of output and employment continues to be focused in service industries, and concentrated in the north east of the region.

### OUR PARTNERSHIPS

## BACKGROUND

The global economy has appears to have weathered recent shocks to energy and mineral prices, and continues to move forward strongly. 2006 saw growth in global real output of more than 5 per cent, well above historical trends, and most agencies and commentators predict similar growth during 2007 and 2008. The focus of global growth remains in Asia, with the Chinese economy continuing to expand at around 10 per cent a year and India growing only slightly more slowly (around 8 per cent). US growth has moderated slightly, but continues close to trend as the weaker housing market appears to have only marginally affected consumer spending. US employment growth remains strong, supporting consumption through higher incomes. The Euro area economy is now growing more strongly than at any time since 2000, with marked improvements in labour market conditions.

The UK economy grew by around 2.7 per cent during 2006, as surging investment offset slower household consumption growth. The consensus among UK forecasting organisations is now for similar GDP growth during 2007 with a moderate slowdown in growth during 2008. Fixed investment is forecast to continue to grow strongly this year (with a marked increase in predicted growth rates compared to the November 2006 forecasts), and private consumption growth to recover as stronger real earnings growth offsets the impact of recent interest rate rises. Growth in these components of domestic demand will compensate for predicted declines government consumption growth and in the predicted negative growth contribution of international trade. For 2008, growth of fixed investment is forecast to moderate somewhat, and trade to expand once more, resulting in a more balanced growth profile across the main components of expenditure.

As always, this benign picture hides some significant risks for global and national economic outlooks. Global energy markets remain susceptible to supply shocks – potentially generating further significant price spikes. There are continuing concerns over the longer-term implications of the US housing market slowdown, and the possibility that weak housing market conditions to spill over into other asset markets and to the wider economy. The size of the US current account deficit also remains a concern for many commentators, with worries continuing over the possibility of a disruptive ‘correction’ to global financial imbalances. Over the longer term, a key concern is the capacity of the major Asian economies to sustain growth at current levels, and the implications of more modest growth in Asia for global trading conditions.

**Table 1: Forecasts for the UK economy**

(Median independent forecasts)

	Forecasts, as of:			
	Actual 2006	Nov' 2006 2007	May 2007 2007	2008
<i>Growth of</i>				
GDP	2.7	2.5	2.7	2.5
Private Consumption	2.0	2.3	2.5	2.3
Government Consumption	2.4	2.5	2.2	2.3
Fixed Investment	6.5	3.4	5.6	3.5
Exports	11.6	4.8	-2.5	5.2
Imports	11.8	4.6	-2.1	4.7
Consumer Prices (CPI Inflation)	2.3	2.0	2.0	2.0
Average Earnings	4.5	4.2	4.4	4.2
Employment	0.8	0.7	0.8	0.7
Interest Rate	5.00	5.00	5.50	5.00

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

A substantial quantity of new and revised economic data on the South West has become available since the last set of projections were published in November 2006. Headline GVA in the South West rose by around 4 per cent in current price terms between 2004 and 2005, the 5<sup>th</sup> highest rate among the UK regions, to around £84.6 billion. Growth in South West GVA during 2005 was marginally higher than that for the UK as a whole, but both were substantially lower than the average for 1997-2004 (5.9 per cent and 5.5 per cent, respectively). Growth in South West GVA per head during 2004-5 was around 3.4 per cent, 6<sup>th</sup> highest among the UK regions, and again lower than average rate for 1997-2004 (of 5.2 per cent).

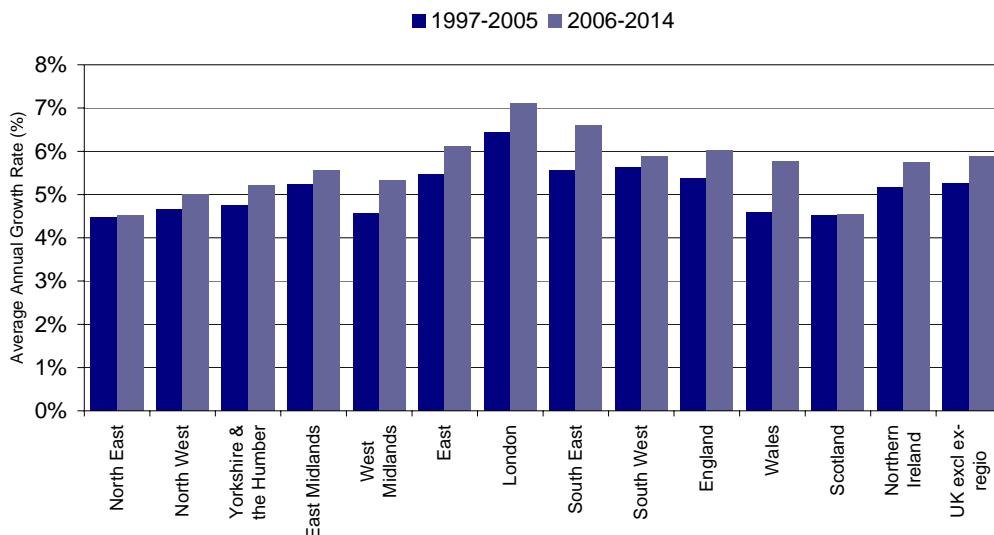
ONS estimates for regional GVA by industry sector lag one year behind the aggregate estimates, so that the updated series extends only to 2004. The new data suggests that growth in South West output continues to be focused in the service sectors, particularly financial and business services, which together contributed 41 per cent of total growth in South West GVA between 1997 and 2004, with retail and wholesale distribution adding a further 14 per cent.

For more recent information on South West economic performance we need to rely primarily on labour market data. The available data from the ONS Labour Force Survey suggest that South West total employment continues to rise. Unemployment has risen substantially since 2005, but there are no clear short run trends in employment and unemployment rates (although the claimant count has fallen slightly over recent months).

## OUTPUT (GVA) PROJECTIONS

We project that, in current price terms, South West Gross Value Added (GVA), estimated at around £84.6 billion in 2005, will have been around £89.0 billion in 2006 and will rise to around £95.9 billion during 2007. These represent increases in projected South West GVA compared with the Autumn 2006 projections, reflecting stronger than expected regional output in 2005 together with slightly more robust regional growth going forward. GVA is projected to grow at an average annual rate of 5.9 per cent during 2006-2014. This is a faster rate of growth than during 1997-2005, although this partly reflects the pickup in price inflation since 2006. The South West's projected growth rate during 2006-2014 is the 4<sup>th</sup> highest among the UK regions.

Figure 1: Projected Growth of Regional GVA



The South West is, however, expected to maintain a relatively high rate of population growth, dampening growth in GVA per head. South West GVA per head is projected to rise from around £16,650 in 2005 and £17,540 in 2006 to around £18,630 in 2007 (a rise of 6.2%), and thereafter at an average rate of around 5.2% during 2006-2014, the 6<sup>th</sup> highest among the UK regions. This is also slightly less than the projected growth rate for GVA per head across the UK as a whole – of 5.4% a year on average. This implies that South West GVA per head is projected to fall marginally relative to the national level during the period to 2014, from around 94.4 per cent of the UK level in 2006 to 93.3 per cent in 2014.

Figure 2: Growth of Regional GVA per Head

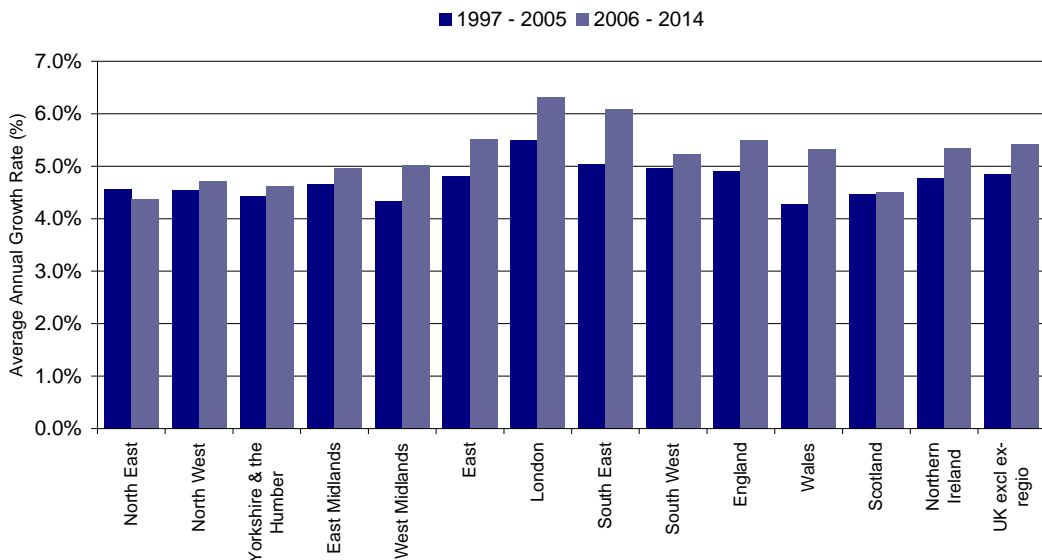
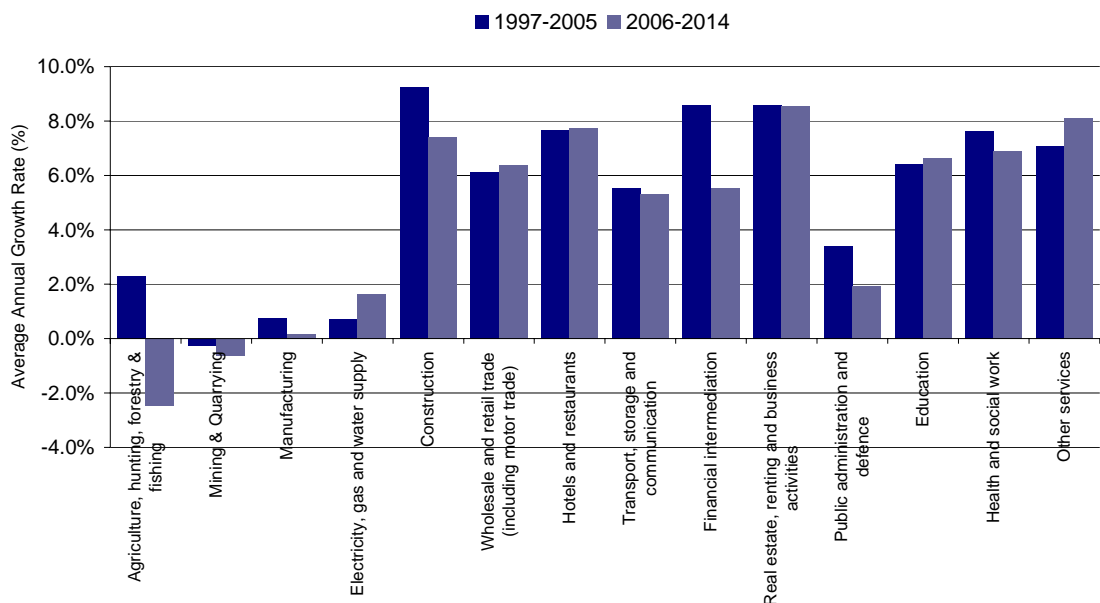


Figure 3: South West Output Growth by Industry



Changes to the projections methodology, together with revisions to underlying data and a revised projection period, have resulted in quite substantial changes to the patterns of projected growth rates for some South West sectors compared with previous projections. The latest projections (Figure 4) take greater account of the pattern of

growth in demand within the UK economy (with industries focused on consumption benefiting more from rapid growth in household expenditure, etc.). The revised projections predict strong nominal GVA growth in service sectors, but weak growth or even declines in agriculture, extraction and production sectors (other than construction).

## EMPLOYMENT PROJECTIONS

Total employment in the South West (measured by ABI employee jobs) is projected to rise at an average annual rate of 2.1 per cent during 2006-2014, slightly above the average growth rate during 1998-2005 of 1.6 per cent (Figure 4). This is the 2<sup>nd</sup> highest growth rate among the English regions (behind South East), and 3<sup>rd</sup> highest among British regions (behind Wales), and implies an additional 400,000 employee jobs in the region by 2014. Given past trends, we would expect a large proportion of these new jobs to be part-time. Production employment is projected to decline, while service sector employment expands (Figure 5).

Figure 4: Growth of Employee Jobs

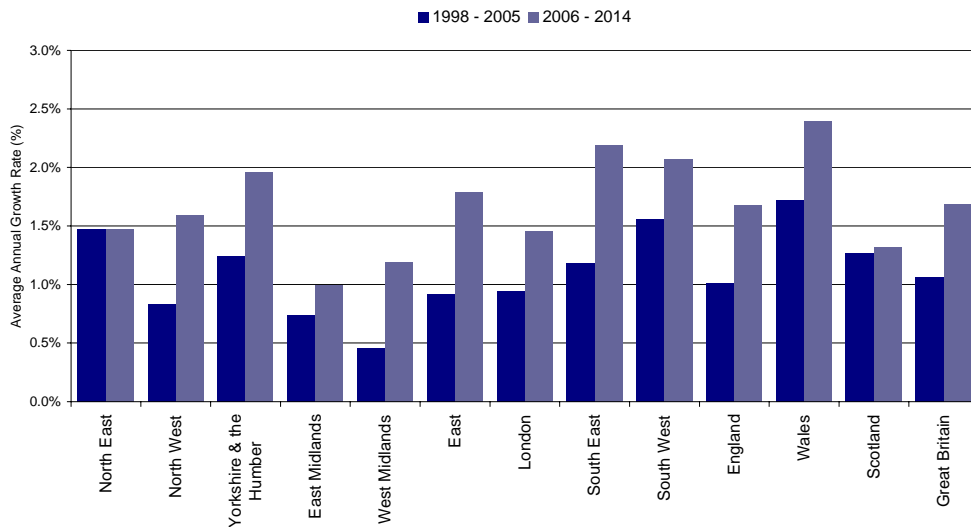
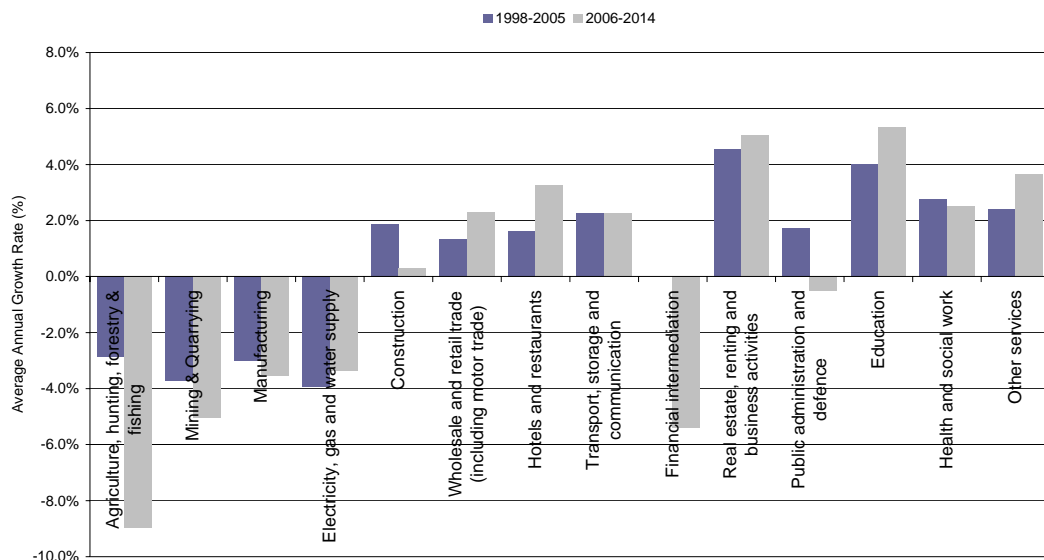


Figure 5: Employment Growth by Sector

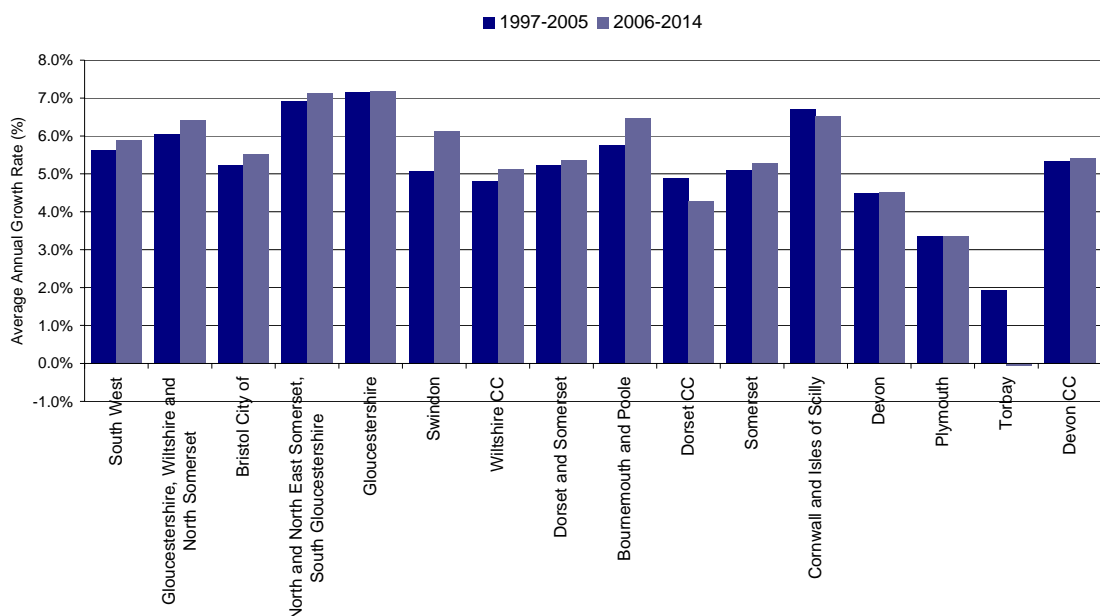


## SOUTH WEST SUB-REGIONS

The north eastern part of the South West region (Gloucestershire, Wiltshire and North Somerset) grew at an average annual rate of 6.1 per cent during 1997-2005, compared with 5.6 per cent for the region as a whole. This area accounted for 58 per cent of total regional output growth over this period. The other area seeing growth above the regional average was Cornwall and Isles of Scilly, where GVA grew by 6.7 per cent a year between 1997 and 2005. In contrast, GVA in Dorset & Somerset grew by 5.2 per cent and that in Devon by only 4.5 per cent over this period, with even lower growth rates in some areas (notably Torquay, 1.9 per cent).

Our projections for 2006-2014 show a continuation of these broad trends, with Gloucestershire, Wiltshire and North Somerset continuing to account for the majority (61 per cent) of regional GVA growth, but also continued strong growth in Cornwall, albeit at a slightly reduced rate.

Figure 6: Growth of GVA: South-West Sub-regions



## 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 UK economy performs as predicted by the most recent HM Treasury forecasts. The projections are based on detailed analysis of past 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 growth in the main components of expenditure and industry performance, national and regional economic activity by sector and of the most recent HM Treasury survey forecasts for UK economic growth. The South West Business Economy Module also produces detailed sector projections using 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| software please contact SWBEM (see below for contact details).

# SOUTH WEST BUSINESS ECONOMY MODULE

The Business and Economy Module 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 and Economy Module has developed a set of Regional Accounts which are freely available to all. For further information please visit the Business and Economy Module website ([www.swo.org.uk/bem](http://www.swo.org.uk/bem)).

The South West Regional Observatory's Business and Economy Module and the South West RDA use a wide range of information and data sourced from third party suppliers within its analysis and reports. Neither body can be held responsible for the accuracy or timeliness of this information.

Neither the Business and Economy Module nor the South West RDA will be liable for any losses suffered or liabilities incurred by third parties' use or reliance, in any way, on the information contained in this publication.



South West  
England

## SWBEM Regional Projections

	Average annual growth rate						
	1997	2005	2006	2007	2014	1997-2005	2006-2014
<b>GVA (£m, current price)</b>							
North East	25,323	35,940	37,149	39,153	52,877	4.5%	4.5%
North West	73,735	106,142	110,867	117,731	163,860	4.7%	5.0%
Yorkshire & the Humber	53,892	78,079	82,553	87,746	123,865	4.7%	5.2%
East Midlands	47,074	70,841	74,545	79,532	114,847	5.2%	5.6%
West Midlands	59,400	84,838	88,997	94,450	134,949	4.6%	5.3%
East	68,541	104,918	111,185	118,642	178,787	5.5%	6.1%
London	109,945	180,991	192,517	208,937	333,343	6.4%	7.1%
South East	107,945	166,346	176,270	189,402	293,784	5.6%	6.6%
South West	54,543	84,554	89,665	95,892	141,811	5.6%	5.9%
England	600,398	912,649	963,749	1,031,484	1,538,122	5.4%	6.0%
Wales	28,544	40,867	43,118	45,752	67,491	4.6%	5.8%
Scotland	60,653	86,324	90,172	95,707	128,612	4.5%	4.5%
Northern Ireland	16,361	24,480	26,401	28,224	41,279	5.2%	5.7%
UK excl ex-regio	705,956	1,064,320	1,123,440	1,201,167	1,775,504	5.3%	5.9%
<b>GVA per head (£, current price)</b>							
North East	9,861	14,093	14,548	15,314	20,485	4.6%	4.4%
North West	10,852	15,492	16,135	17,087	23,317	4.5%	4.7%
Yorkshire & the Humber	10,871	15,389	16,174	17,094	23,232	4.4%	4.6%
East Midlands	11,424	16,440	17,195	18,239	25,349	4.7%	5.0%
West Midlands	11,287	15,840	16,563	17,524	24,521	4.3%	5.0%
East	13,014	18,965	19,970	21,180	30,666	4.8%	5.5%
London	15,673	24,062	25,360	27,301	41,417	5.5%	6.3%
South East	13,746	20,380	21,483	22,971	34,488	5.0%	6.1%
South West	11,299	16,652	17,537	18,634	26,395	5.0%	5.2%
England	12,337	18,096	19,004	20,235	29,162	4.9%	5.5%
Wales	9,860	13,788	14,483	15,304	21,946	4.3%	5.3%
Scotland	11,932	16,936	17,652	18,713	25,101	4.5%	4.5%
Northern Ireland	9,789	14,213	15,235	16,210	23,099	4.8%	5.3%
UK excl ex-regio	12,106	17,674	18,559	19,749	28,304	4.8%	5.4%
	93.3	94.2	94.5	94.4	93.3		
<b>Employment (ABI Employee Jobs)</b>							
North East	945,700	1,063,300	1,044,300	1,069,700	1,173,600	1.5%	1.5%
North West	2,788,600	2,980,100	3,045,900	3,127,100	3,456,500	0.8%	1.6%
Yorkshire & the Humber	2,049,700	2,262,400	2,299,500	2,368,000	2,685,100	1.2%	2.0%
East Midlands	1,752,400	1,858,300	1,827,100	1,864,400	1,978,000	0.7%	1.0%
West Midlands	2,290,700	2,376,400	2,366,900	2,413,000	2,602,900	0.5%	1.2%
East	2,187,800	2,353,000	2,358,300	2,417,600	2,717,400	0.9%	1.8%
London	3,764,100	4,058,100	4,011,700	4,110,400	4,504,500	0.9%	1.5%
South East	3,425,100	3,762,400	3,750,500	3,860,100	4,461,000	1.2%	2.2%
South West	1,950,900	2,207,700	2,252,500	2,322,700	2,653,500	1.6%	2.1%
England	21,155,000	22,921,700	22,956,700	23,553,000	26,232,500	1.0%	1.7%
Wales	1,038,100	1,190,000	1,195,800	1,230,100	1,445,300	1.7%	2.4%
Scotland	2,161,900	2,391,400	2,405,100	2,475,600	2,670,900	1.3%	1.3%
Great Britain	24,355,000	26,503,200	26,557,500	27,258,700	30,348,700	1.1%	1.7%

**SWBEM: South West Economic Projections**

<b>GVA (£m, current price)</b>							Average annual growth rate	
	<b>1997</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2014</b>	<b>1997-2005</b>	<b>2006-2014</b>	
Agriculture, hunting, forestry & fishing	1,422	1,704	2,004	1,804	1,641	2.3%	-2.5%	
Mining & Quarrying	374	367	401	404	381	-0.3%	-0.6%	
Manufacturing	11,274	11,964	12,536	12,469	12,708	0.7%	0.2%	
Electricity, gas and water supply	1,696	1,793	1,673	1,636	1,903	0.7%	1.6%	
Construction	2,949	5,984	6,702	7,533	11,873	9.2%	7.4%	
Wholesale and retail trade (including motor trade)	6,487	10,433	10,816	11,777	17,739	6.1%	6.4%	
Hotels and restaurants	1,774	3,205	3,377	3,843	6,136	7.7%	7.7%	
Transport, storage and communication	3,465	5,333	5,496	5,890	8,314	5.5%	5.3%	
Financial intermediation	3,065	5,933	6,936	7,018	10,664	8.6%	5.5%	
Real estate, renting and business activities	10,321	19,928	21,007	23,519	40,525	8.6%	8.6%	
Public administration and defence	3,989	5,207	5,352	5,447	6,242	3.4%	1.9%	
Education	3,108	5,113	5,354	5,701	8,960	6.4%	6.6%	
Health and social work	3,707	6,682	7,286	7,792	12,409	7.6%	6.9%	
Other services	2,387	4,122	4,360	4,825	8,143	7.1%	8.1%	
FISIM Adjustment	1,475	3,212	3,636	3,768	5,826	10.2%	6.1%	
<b>TOTAL</b>	<b>54,543</b>	<b>84,554</b>	<b>89,665</b>	<b>95,892</b>	<b>141,811</b>	<b>5.6%</b>	<b>5.9%</b>	

<b>Employment (ABI Employee Jobs)</b>								
	<b>1998</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2014</b>	<b>1998-2005</b>	<b>2006-2014</b>	
Agriculture, hunting, forestry & fishing	35,500	28,100	31,800	26,800	15,000	-2.9%	-9.0%	
Mining & Quarrying	6,100	4,500	5,300	5,100	3,500	-3.7%	-5.1%	
Manufacturing	320,600	251,000	254,100	243,300	190,100	-3.0%	-3.6%	
Electricity, gas and water supply	13,400	9,700	9,200	8,600	7,000	-4.0%	-3.4%	
Construction	86,200	100,100	106,100	111,400	108,600	1.9%	0.3%	
Wholesale and retail trade (including motor trade)	364,300	405,700	409,400	428,700	491,500	1.4%	2.3%	
Hotels and restaurants	148,800	169,200	171,300	186,800	221,400	1.6%	3.3%	
Transport, storage and communication	93,400	111,900	110,100	114,600	131,800	2.3%	2.3%	
Financial intermediation	79,900	79,900	90,700	82,300	58,100	0.0%	-5.4%	
Real estate, renting and business activities	227,900	325,200	312,000	338,100	463,100	4.5%	5.1%	
Public administration and defence	105,300	120,700	129,700	128,800	124,600	1.7%	-0.5%	
Education	156,800	215,200	226,300	238,000	342,900	4.0%	5.3%	
Health and social work	229,800	286,100	294,500	302,100	359,900	2.8%	2.5%	
Other services	82,800	100,300	102,000	108,200	136,000	2.4%	3.7%	
<b>TOTAL</b>	<b>1,950,900</b>	<b>2,207,700</b>	<b>2,252,500</b>	<b>2,322,700</b>	<b>2,653,500</b>	<b>1.6%</b>	<b>2.1%</b>	

**SWBEM: Sub-Regional Projections**

	1997	2005	2006	2007	2014	Average annual growth rate	
						1997-2005	2006-2014
<b>GVA (£m, current prices)</b>							
<b>South West</b>	54,500	84,600	89,700	95,900	141,800	5.6%	5.9%
<b>Gloucestershire, Wiltshire and North Somerset</b>	<b>28,800</b>	<b>46,000</b>	<b>48,900</b>	<b>52,700</b>	<b>80,500</b>	<b>6.1%</b>	<b>6.4%</b>
Bristol City of	6,500	9,700	10,200	11,000	15,800	5.2%	5.5%
North and North East Somerset, South Gloucestershire	7,300	12,400	13,300	14,400	23,100	6.9%	7.1%
Gloucestershire	6,700	11,700	12,600	13,600	21,900	7.1%	7.2%
Swindon	3,400	5,100	5,400	5,800	8,600	5.1%	6.1%
Wiltshire CC	4,900	7,100	7,500	7,900	11,100	4.8%	5.1%
<b>Dorset and Somerset</b>	<b>11,700</b>	<b>17,500</b>	<b>18,600</b>	<b>19,700</b>	<b>28,200</b>	<b>5.2%</b>	<b>5.4%</b>
Bournemouth and Poole	3,300	5,100	5,500	5,900	9,000	5.8%	6.5%
Dorset CC	3,500	5,100	5,300	5,600	7,500	4.9%	4.3%
Somerset	4,900	7,300	7,800	8,200	11,700	5.1%	5.3%
<b>Cornwall and Isles of Scilly</b>	<b>3,600</b>	<b>6,000</b>	<b>6,500</b>	<b>6,900</b>	<b>10,700</b>	<b>6.7%</b>	<b>6.5%</b>
<b>Devon</b>	<b>10,500</b>	<b>15,000</b>	<b>15,700</b>	<b>16,600</b>	<b>22,400</b>	<b>4.5%</b>	<b>4.5%</b>
Plymouth	2,700	3,500	3,700	3,800	4,800	3.4%	3.4%
Torbay	1,200	1,400	1,400	1,400	1,400	1.9%	-0.1%
Devon CC	6,600	10,000	10,600	11,300	16,200	5.3%	5.4%
<b>GVA per head (£, current prices)</b>							
<b>South West</b>	11300	16700	17500	18600	26400	5.0%	5.2%
<b>Gloucestershire, Wiltshire and North Somerset</b>	13600	20700	21900	23500	34600	<b>5.5%</b>	<b>5.9%</b>
Bristol City of	16700	24500	25600	27500	38100	5.0%	5.0%
North and North East Somerset, South Gloucestershire	12500	20100	21400	23000	35400	6.2%	6.5%
Gloucestershire	12000	20300	21800	23400	36800	6.7%	6.8%
Swindon	19400	27900	29400	31500	45600	4.5%	5.8%
Wiltshire CC	11700	15800	16600	17400	23300	3.9%	4.4%
<b>Dorset and Somerset</b>	10000	14300	15100	15900	22000	<b>4.6%</b>	<b>4.8%</b>
Bournemouth and Poole	11000	16900	18200	19500	29400	5.7%	6.3%
Dorset CC	9200	12700	13100	13700	17700	4.2%	3.7%
Somerset	10100	14100	15000	15600	21100	4.2%	4.5%
<b>Cornwall and Isles of Scilly</b>	7400	11500	12300	13000	18900	<b>5.7%</b>	<b>5.6%</b>
<b>Devon</b>	10000	13500	14000	14700	18700	<b>3.8%</b>	<b>3.7%</b>
Plymouth	11000	14300	15000	15300	18900	3.4%	3.0%
Torbay	9600	10400	10300	10200	9500	1.0%	-1.1%
Devon CC	9700	13600	14300	15100	20400	4.4%	4.5%