SOUTH WEST OBSERVATORY

BUSINESS AND ECONOMY

SOUTH WEST ECONOMY PROJECTIONS: AUTUMN 2007

This bulletin presents our latest output and employment projections for the South West of England. There are growing concerns that developments in financial markets may lead to weaker UK growth in the short term. Longer term growth prospects, however, remain robust. As a result, regional nominal GVA is projected to grow by an average annual rate around 5.9 per cent during the period 2006-2014, roughly equal to the national rate. GVA per head in the South West is projected to lag marginally behind the national economy, with annual growth at 5.3 per cent compared to 5.4 per cent for the UK as a whole. Growth in employment is projected to add more than 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.

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 October 2007, and cover the period from 2006-2014.

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BACKGROUND

Recent developments in global financial markets have generated considerable uncertainty over prospects for the UK economy. While the impacts of tighter credit conditions on expenditure and growth remain unclear, most commentators have downgraded their short term forecasts for growth of the UK economy. HM Treasury's survey of independent forecast for the UK shows a reduction in projected growth rates for 2008 (Table 1). The median GDP growth forecast for 2008 in the October survey was 2.3 per cent, down from 2.5 per cent in the May survey. This is largely due to weaker expectations for growth in private consumption and fixed investment, as tightening credit markets and higher interest rates impact negatively on spending by both households and businesses. On the other hand, the most recent forecasts suggest stronger growth during this year than was previously expected.

Table 1: Forecasts for the UK Economy

(Median of independent forecasts)

		Forecast as of:			
	Actual		May 2007		October 2007
	2006	2007	2008	2007	2008
Growth of:					
GDP	2.7	2.7	2.5	2.9	2.3
Private Consumption	2.0	2.5	2.3	2.6	2.0
Government Consumption	2.4	2.2	2.3	2.0	2.4
Fixed Investment	6.5	5.6	3.5	5.7	3.0
Exports	11.6	-2.5	5.2	-5.9	4.9
Imports	11.8	-2.1	4.7	-5.0	4.5
Consumer Prices (CPI)	2.3	2.0	2.0	2.1	2.0
Average Earnings	4.5	4.4	4.2	4.0	4.2
Employment	0.8	0.8	0.7	0.7	0.8
Interest Rate	5.00	5.50	5.00	5.75	5.50

Source: HM Treasury, Forecasts for the UK Economy

The longer term consequences of the current credit squeeze are even less clear at present. The Treasury's view, as indicated by this month's 2007 Pre-Budget Report, is fairly sanguine. The Treasury expect any adverse effect from recent interest rate rises and from disturbances in financial markets to be short lived. The Pre-Budget Report predicts that the UK economy will grow more slowly during 2008 than was expected at the time of the Budget, at 2-2.5 per cent compared to the previous forecast of 2.5-3 per cent. However, UK growth is predicted to return to trend (2.5 to 3 per cent a year) from 2009 onwards.

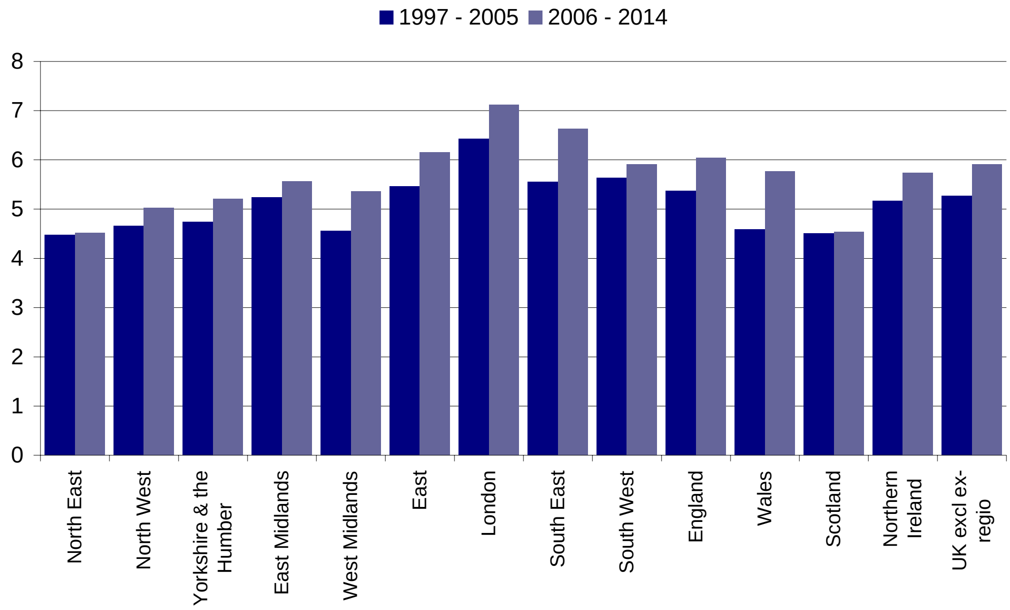
There is little new data on which to base an assessment of current activity, and recent trends, within the South West. Business surveys suggest continued job creation and investment among the region's firms. Evidence on regional labour market condition from the most recent ONS *Labour Market Statistics, First Release*: *South West* series, published in September, shows total regional employment broadly flat in the year to July, while ILO unemployment has increased slightly on the previous year. Claimant count unemployment in the region is marginally lower in August 2007 than was the case a year before. No clear trends are apparent in any of these series over the recent past.

OUTPUT (GVA) PROJECTIONS

Total Gross Value Added (GVA) from the South West is projected to rise by around 5.9 per cent a year, on average and in current price terms, during the period 2006-2014. The South West's projected growth rate during 2006-2014 is the 4th fastest among the UK regions. Combining projected current price growth with expected inflation over this period implies growth of 'real' (inflation adjusted) GVA in the South West at around 2.75 per cent a year. As a result, South West GVA is expected to increase from an estimated £86.4 billion in 2005, to £89.7 billion in 2006, £96.7 billion in 2007 and £98.2 billion in 2008, and to reach £142 billion in current prices by 2014.

These projections are basically unchanged from those presented in our Spring bulletin. This reflects stronger than previously expected growth during 2007, together with the expectation that any macroeconomic impact from recent financial market volatility will be both marginal and short-lived. There are, of course, considerable uncertainties concerning this outcome, and these will be explored in a forthcoming SWBEM modelling bulletin.

Figure 1: Projected Growth Rate of Regional GVA



The South West is 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 £16,700 in 2005 and £17,500 in 2006 to £18,800 in 2007, and thereafter at an average rate of around 5.3% during 2006-2014, the 6th highest among the UK regions. This is slightly less than the projected growth rate for GVA per head across the UK as a whole – of 5.4% a year on average, implying that South West GVA per head will 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 93.2 per cent in 2014.

Figure 2: Growth of Regional GVA per Head

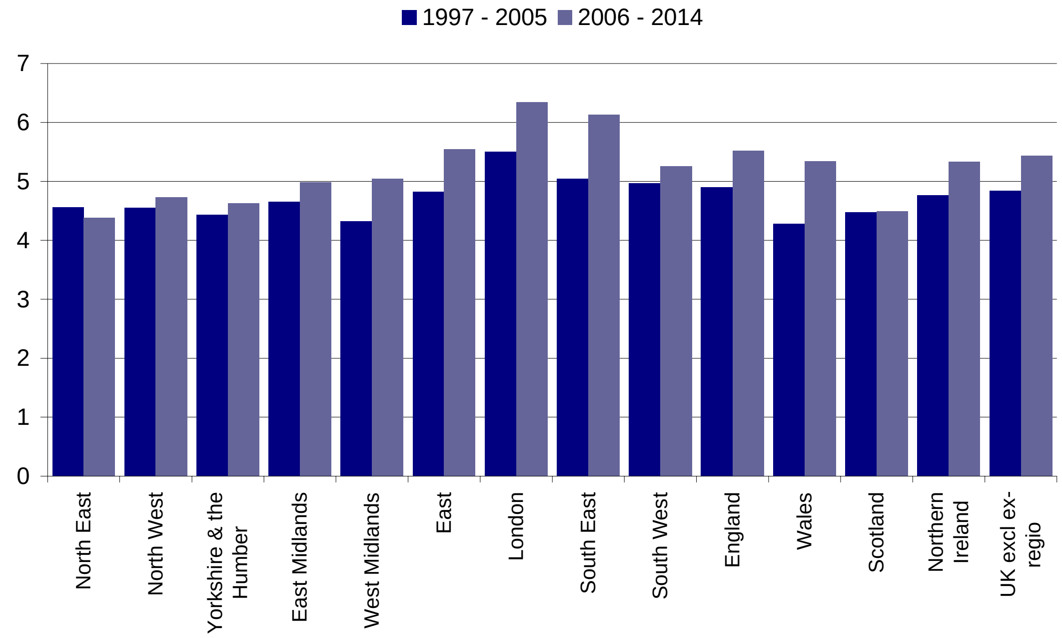
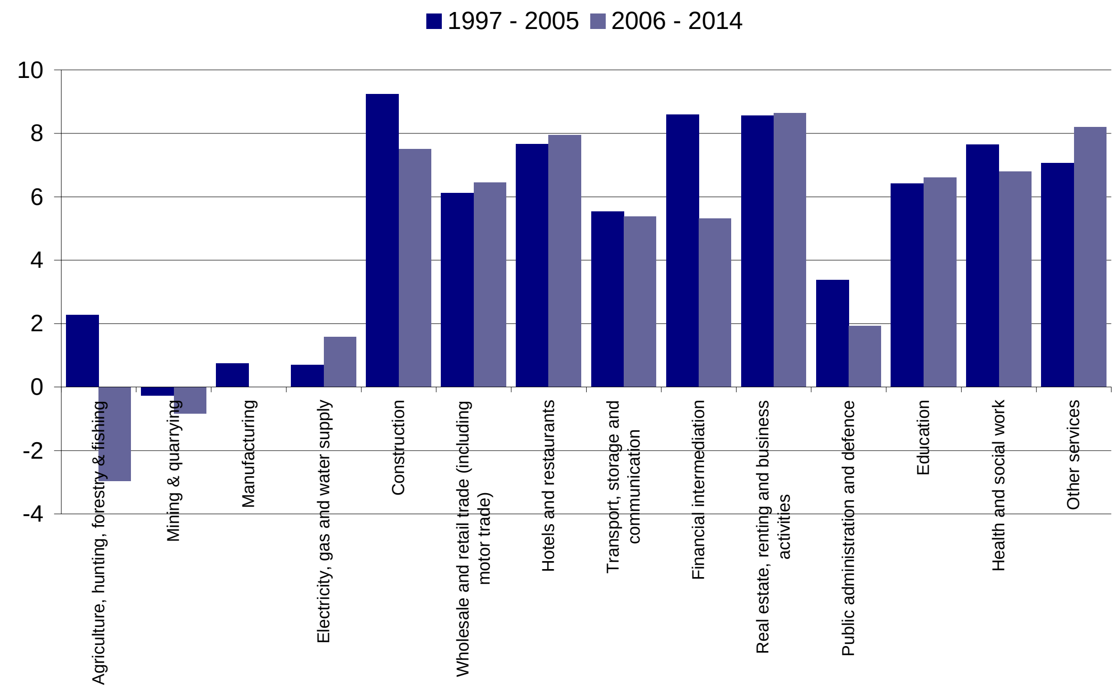


Figure 3: South West Output Growth by Industry



The projections predict strong growth of output (GVA) from construction and of private services, education, health & social work. This is offset by more modest growth in public administration and defence, and electricity, gas & water supply, zero growth in manufacturing, and declining output from agriculture and extraction. These are current price projections which do not allow for the effects of inflation. The low or negative growth of current price output in public administration & defence, electricity gas & water supply, manufacturing, mining & quarrying and (particularly) agriculture suggests reductions in 'real' (constant price) output in those sectors.

EMPLOYMENT PROJECTIONS

In broad terms, our employment projections are also unchanged from those presented in the Spring bulletin. Total employment in the South West, currently estimated at around 2.34 million, is projected to rise by around 40,000 a year on average during the period to 2014. This implies an average annual employment growth rate of 2.1 per cent a year during 2006-2014, the 3rd fastest rate among the British regions behind Wales and the South East (Figure 4). On the whole, production employment is projected to decline, while service sector employment expands (Figure 5). The main exception is financial services, where declining output growth together with strong productivity growth imply declining employment over this period.

Figure 4: Growth of Employee Jobs

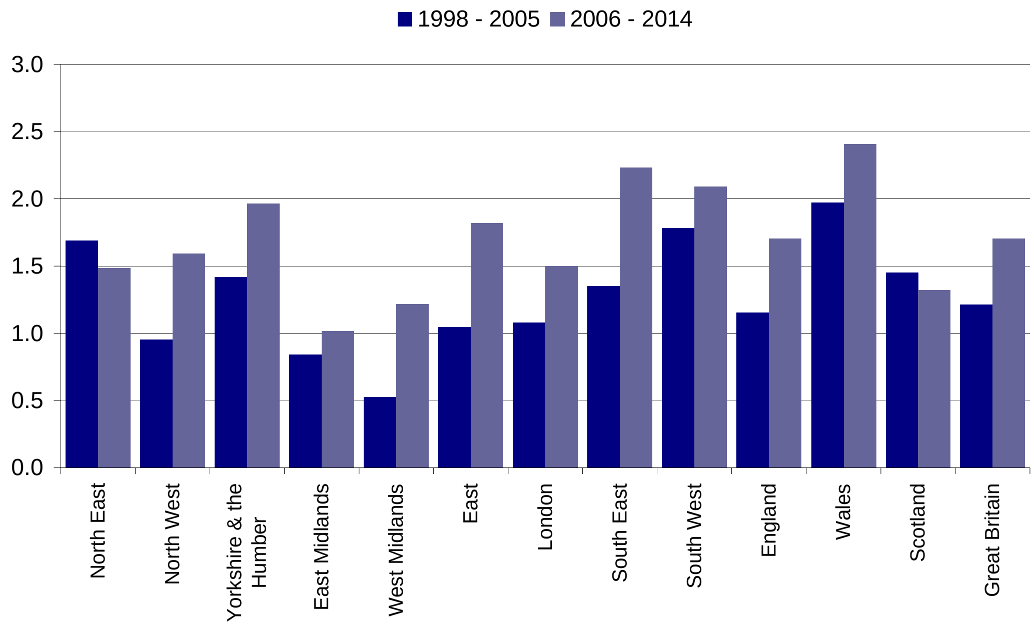
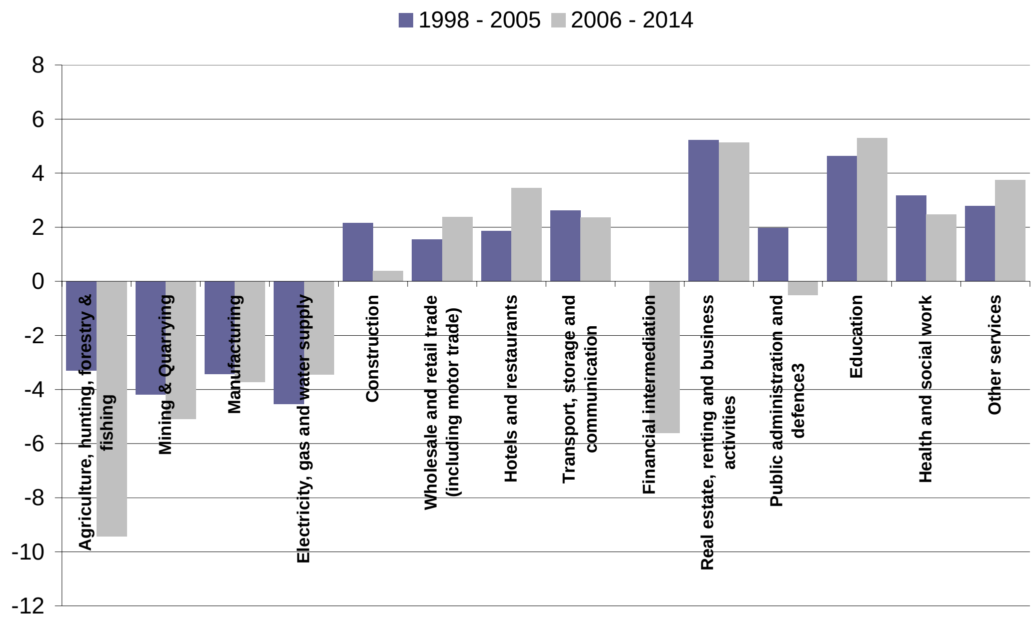


Figure 5: South West Employment Growth by Sector

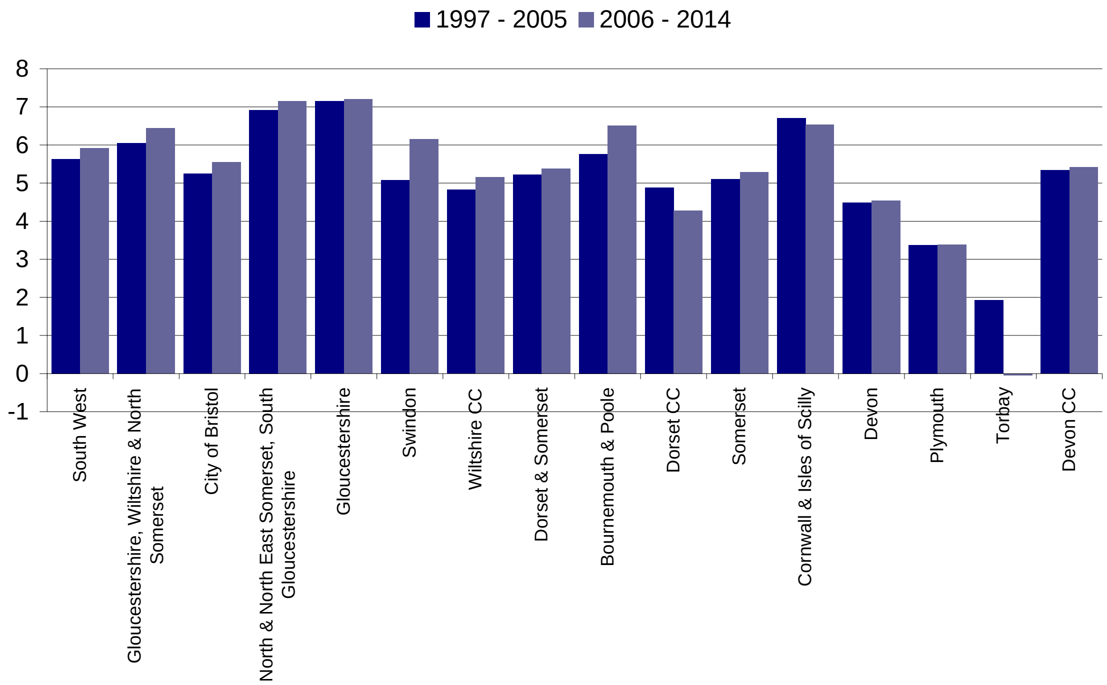


SOUTH WEST SUB-REGIONS

Recent years have seen marked differences in growth performance across sub-regions of the South West. The north-eastern sub-regions have enjoyed strong output and employment growth since 1997, as have Bournemouth & Poole and Cornwall & the Isles of Scilly. In contrast, rural Dorset and Somerset, and the Devon (particularly the urban parts) have grown more weakly.

Our projections predict continued strong growth of output and employment in Gloucestershire, Wiltshire and North Somerset, Bournemouth & Poole, and Cornwall & the Isles of Scilly, with weaker growth in Dorset (excluding the major urban areas) and Devon. Most areas are predicted to enjoy slightly faster growth of GVA during 2006-2014 than over the recent past, although this largely reflects the impact of higher price inflation. Torbay, in particular, is predicted to have constant current price GVA over the period 2006-2014, implying declining 'real' GVA over this period.

Figure 6: Output growth in the 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|i 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**).

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 of England
Regional Development Agency

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SWBEM: UK REGIONAL PROJECTIONS

	1997	2005	2006	2007	2008	2014	Average annual growth rate (%) 1997-2005	2006-2014
GVA (£m, current price)								
North East	25,300	35,900	37,100	39,500	40,600	52,900	4.5	4.5
North West	73,700	106,100	110,900	118,800	122,400	164,100	4.7	5.0
Yorkshire & the Humber	53,900	78,100	82,600	88,400	91,900	123,900	4.7	5.2
East Midlands	47,100	70,800	74,500	80,200	83,200	115,000	5.2	5.6
West Midlands	59,400	84,800	89,000	95,300	99,200	135,100	4.6	5.4
East	68,500	104,900	111,200	119,800	126,600	179,300	5.5	6.2
London	109,900	181,000	192,500	211,100	223,300	333,900	6.4	7.1
South East	107,900	166,300	176,300	191,500	203,200	294,700	5.6	6.6
South West	54,500	84,600	89,700	96,700	100,900	142,000	5.6	5.9
England	600,400	912,600	963,700	1,041,300	1,091,500	1,540,800	5.4	6.0
Wales	28,500	40,900	43,100	46,100	48,000	67,500	4.6	5.8
Scotland	60,700	86,300	90,200	96,400	98,200	128,600	4.5	4.5
Northern Ireland	16,400	24,500	26,400	28,400	29,800	41,300	5.2	5.7
UK excl ex-regio	706,000	1,064,300	1,123,400	1,212,200	1,267,400	1,778,200	5.3	5.9
GVA per Head (£, current price)								
North East	9,900	14,100	14,500	15,400	15,900	20,500	4.6	4.4
North West	10,900	15,500	16,100	17,200	17,700	23,400	4.5	4.7
Yorkshire & the Humber	10,900	15,400	16,200	17,200	17,800	23,200	4.4	4.6
East Midlands	11,400	16,400	17,200	18,400	19,000	25,400	4.7	5.0
West Midlands	11,300	15,800	16,600	17,700	18,400	24,600	4.3	5.0
East	13,000	19,000	20,000	21,400	22,500	30,700	4.8	5.5
London	15,700	24,100	25,400	27,600	29,000	41,500	5.5	6.3
South East	13,700	20,400	21,500	23,200	24,500	34,600	5.0	6.1
South West	11,300	16,700	17,500	18,800	19,500	26,400	5.0	5.3
England	12,300	18,100	19,000	20,400	21,300	29,200	4.9	5.5
Wales	9,900	13,800	14,500	15,400	16,000	22,000	4.3	5.3
Scotland	11,900	16,900	17,700	18,800	19,200	25,100	4.5	4.5
Northern Ireland	9,800	14,200	15,200	16,300	17,100	23,100	4.8	5.3
UK excl ex-regio	12,100	17,700	18,600	19,900	20,700	28,300	4.8	5.4
Employment (ABI Employee Jobs)								
North East	*945,700*	1,063,300	1,044,300	1,079,700	1,076,800	1,175,000	1.7	1.5
North West	*2,788,600*	2,980,100	3,045,900	3,127,100	3,136,200	3,456,500	1.0	1.6
Yorkshire & the Humber	*2,049,700*	2,262,400	2,299,500	2,389,000	2,404,900	2,686,900	1.4	2.0
East Midlands	*1,752,400*	1,858,300	1,827,100	1,881,000	1,867,900	1,980,900	0.8	1.0
West Midlands	*2,290,700*	2,376,400	2,366,900	2,435,100	2,432,900	2,607,100	0.5	1.2
East	*2,187,800*	2,353,000	2,358,300	2,442,100	2,468,500	2,724,400	1.0	1.8
London	*3,764,100*	4,058,100	4,011,700	4,158,600	4,173,000	4,519,500	1.1	1.5
South East	*3,425,100*	3,762,400	3,750,500	3,903,800	3,959,700	4,474,800	1.4	2.2
South West	*1,950,900*	2,207,700	2,252,500	2,345,100	2,352,700	2,657,800	1.8	2.1
England	*21,155,000*	22,921,700	22,956,700	23,761,500	23,872,600	26,282,800	1.2	1.7
Wales	*1,038,100*	1,190,000	1,195,800	1,240,500	1,251,000	1,446,400	2.0	2.4
Scotland	*2,161,900*	2,391,400	2,405,100	2,497,300	2,462,600	2,671,700	1.5	1.3
Great Britain	*24,355,000*	26,503,200	26,557,500	27,499,200	27,586,200	30,400,800	1.2	1.7

SWBEM SOUTH WEST ECONOMIC PROJECTIONS

GVA (£m, current price)

	1997	2005	2006	2007	2008	2014	Average Annual Growth Rate (%) 1997-2005	2006-2014
Agriculture, hunting, forestry & fishing	1,420	1,700	2,000	1,690	1,820	1,580	2.3	-3.0
Mining & Quarrying	370	370	400	400	390	370	-0.3	-0.8
Manufacturing	11,270	11,960	12,540	12,360	12,530	12,540	0.7	0.0
Electricity, gas and water supply	1,700	1,790	1,670	1,640	1,650	1,900	0.7	1.6
Construction	2,950	5,980	6,700	7,650	8,140	11,960	9.2	7.5
Wholesale and retail trade (including motor trade)	6,490	10,430	10,820	11,980	12,380	17,840	6.1	6.5
Hotels and restaurants	1,770	3,200	3,380	3,970	4,080	6,230	7.7	7.9
Transport, storage and communication	3,470	5,330	5,500	5,980	6,240	8,360	5.5	5.4
Financial intermediation	3,060	5,930	6,940	6,840	7,560	10,500	8.6	5.3
Real estate, renting and business activities	10,320	19,930	21,010	24,040	25,040	40,780	8.6	8.6
Public administration and defence	3,990	5,210	5,350	5,450	5,540	6,240	3.4	1.9
Education	3,110	5,110	5,350	5,730	6,050	8,940	6.4	6.6
Health and social work	3,710	6,680	7,290	7,800	8,320	12,330	7.6	6.8
Other services	2,390	4,120	4,360	4,920	5,160	8,190	7.1	8.2
FISIM adjustment	1,470	3,210	3,640	3,720	4,010	5,770	10.2	6.0
TOTAL	54,540	84,550	89,670	96,740	100,890	141,980	5.6	5.9

Employment (ABI Employee Jobs)

	1998	2005	2006	2007	2008	2014	1998-2005	2006-2014
Agriculture, hunting, forestry & fishing	35,500	28,100	31,800	25,100	25,200	14,400	-3.3	-9.4
Mining & Quarrying	6,100	4,500	5,300	5,000	4,700	3,500	-4.2	-5.1
Manufacturing	320,600	251,000	254,100	241,300	235,400	187,600	-3.4	-3.7
Electricity, gas and water supply	13,400	9,700	9,200	8,600	8,200	7,000	-4.5	-3.4
Construction	86,200	100,100	106,100	113,100	112,400	109,400	2.2	0.4
Wholesale and retail trade (including motor trade)	364,300	405,700	409,400	436,000	433,400	494,300	1.5	2.4
Hotels and restaurants	148,800	169,200	171,300	193,100	190,100	224,700	1.8	3.4
Transport, storage and communication	93,400	111,900	110,100	116,400	117,800	132,600	2.6	2.4
Financial intermediation	79,900	79,900	90,700	80,200	79,400	57,200	0.0	-5.6
Real estate, renting and business activities	227,900	325,200	312,000	345,600	348,300	465,900	5.2	5.1
Public administration and defence	105,300	120,700	129,700	129,000	127,900	124,500	2.0	-0.5
Education	156,800	215,200	226,300	239,200	249,400	342,200	4.6	5.3
Health and social work	229,800	286,100	294,500	302,200	309,500	357,700	3.2	2.5
Other services	82,800	100,300	102,000	110,300	110,900	136,800	2.8	3.7
TOTAL	1,950,900	2,207,700	2,252,500	2,345,100	2,352,700	2,657,800	1.8	2.1

SWBEM: SOUTH WEST SUB-REGIONAL PROJECTIONS

	1997	2005	2006	2007	2008	2014	Average Annual Growth Rate (%) 1997-2005	2006-2014
GVA (£m, current prices)								
South West	54,500	84,600	89,700	96,700	100,900	142,000	5.6	5.9
Gloucestershire, Wiltshire and North Somerset	28,800	46,000	48,900	53,200	55,700	80,600	6.1	6.4
Bristol City of	6,500	9,700	10,200	11,100	11,500	15,800	5.2	5.5
North and North East Somerset, South Gloucestershire	7,300	12,400	13,300	14,500	15,300	23,100	6.9	7.2
Gloucestershire	6,700	11,700	12,600	13,700	14,500	21,900	7.1	7.2
Swindon	3,400	5,100	5,400	5,800	6,100	8,700	5.1	6.2
Wiltshire CC	4,900	7,100	7,500	8,000	8,300	11,200	4.8	5.2
Dorset and Somerset	11,700	17,500	18,600	19,900	20,700	28,200	5.2	5.4
Bournemouth and Poole	3,300	5,100	5,500	6,000	6,200	9,000	5.8	6.5
Dorset CC	3,500	5,100	5,300	5,600	5,800	7,500	4.9	4.3
Somerset	4,900	7,300	7,800	8,300	8,600	11,700	5.1	5.3
Cornwall and Isles of Scilly	3,600	6,000	6,500	7,000	7,400	10,700	6.7	6.5
Devon	10,500	15,000	15,700	16,700	17,200	22,400	4.5	4.5
Plymouth	2,700	3,500	3,700	3,900	3,900	4,800	3.4	3.4
Torbay	1,200	1,400	1,400	1,400	1,400	1,400	1.9	-0.1
Devon CC	6,600	10,000	10,600	11,400	11,800	16,200	5.3	5.4
GVA per Head (£, current prices)								
South West	11,300	16,500	17,400	18,700	19,400	26,300	4.9	5.3
Gloucestershire, Wiltshire and North Somerset	13,600	20,600	21,800	23,500	24,500	34,500	5.3	5.9
Bristol City of	16,700	24,500	25,600	27,500	28,400	37,900	4.9	5.0
North and North East Somerset, South Gloucestershire	12,500	20,000	21,200	23,100	24,200	35,200	6.0	6.5
Gloucestershire	12,000	20,200	21,700	23,600	24,800	36,700	6.8	6.8
Swindon	19,400	27,600	29,100	31,500	32,700	45,700	4.5	5.8
Wiltshire CC	11,700	15,700	16,400	17,400	17,900	23,200	3.7	4.5
Dorset and Somerset	10,000	14,300	15,000	16,000	16,600	21,900	4.5	4.8
Bournemouth and Poole	11,000	17,100	18,100	19,700	20,500	29,500	5.6	6.3
Dorset CC	9,200	12,500	13,100	13,800	14,200	17,500	3.9	3.7
Somerset	10,100	14,000	14,800	15,700	16,200	21,000	4.2	4.5
Cornwall and Isles of Scilly	7,400	11,400	12,200	13,000	13,600	18,800	5.6	5.6
Devon	10,000	13,300	13,900	14,600	14,900	18,600	3.7	3.7
Plymouth	11,000	14,400	14,800	15,600	15,800	18,800	3.4	3.0
Torbay	9,600	10,300	10,200	10,500	10,300	9,400	0.8	-1.0
Devon CC	9,700	13,600	14,200	15,100	15,500	20,200	4.3	4.5