

# SOUTH WEST RDA: Economics & Evidence: Special Briefing

14th December 2007

## Release of new regional GVA data

Revisions and new data for regional gross value added (GVA) were released today. GVA is the measure of total annual economic output or income used in this country (and in the EU more widely) to monitor each region's performance and to make inter-regional comparisons. This briefing summarises the headline messages from this annual release. The data is historical: the latest years available for inter-regional outcomes are 2006 and 2005 for intra-regional outcomes.

## Regional overview

Table SM1 (below) shows the regional (based on the UK/EU standard spatial definitions - NUTS 1) position for 2006, with the regions ranked by rounded GVA per head.

The figures confirm what we know from other evidence that 2006 was a year of relative acceleration for the UK and South West England (SWE) economies. Strongest growth was in London. SWE was fourth fastest (with Scotland and after N Ireland and NE England).

Table SM1: NUTS 1 GVA and GVA per head in 2006

2006	GVA (£bn)	% of UK	% ch on 2005	GVA per head (£)	Index
<b>UK</b>	<b>1,128.8</b>	<b>100</b>	<b>+5.1</b>	<b>18,600</b>	<b>100</b>
London	196.8	17.4	+5.7	26,200	141
S East	177.2	15.7	+5.1	21,500	115
East	109.8	9.7	+4.6	19,600	105
<b>England</b>	<b>968.6</b>	<b>85.8</b>	<b>+5.1</b>	<b>19,100</b>	<b>102</b>
Scotland	91.0	8.1	+5.4	17,800	95
<b>South West</b>	<b>89.5</b>	<b>7.9</b>	<b>+5.4</b>	<b>17,500</b>	<b>94</b>
E Midlands	74.1	6.6	+5.0	17,000	91
W Midlands	89.0	7.9	+5.0	16,600	89
N West	111.3	9.9	+4.5	16,200	87
Yorks & H	82.1	7.3	+4.6	16,000	86
N Ireland	26.4	2.3	+5.6	15,200	81
N East	38.8	3.4	+5.5	15,200	81
Wales	42.7	3.8	+4.9	14,400	77

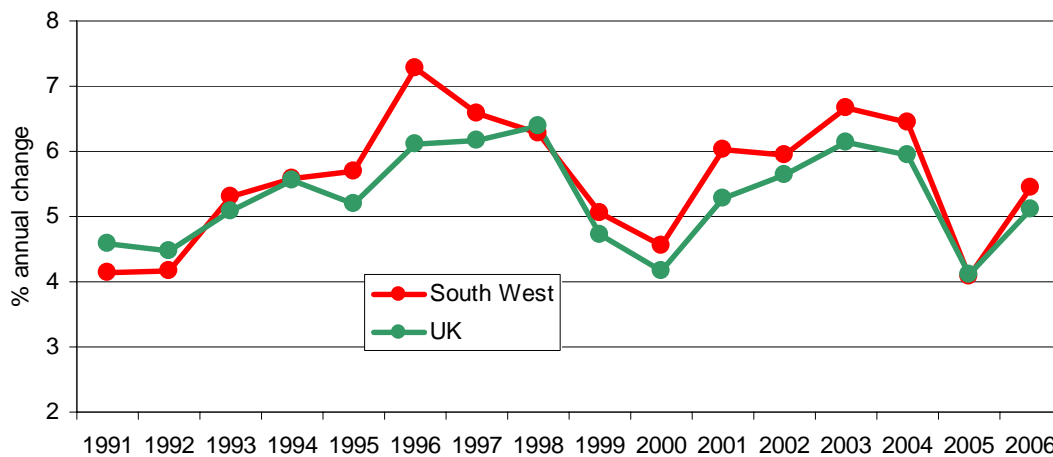
- On a residence basis, South West England (SWE) raised its GVA per head by 4.7% to £17,467 in 2006, 6.2% below the UK average – this compared with 6.4% below in 2005. This is a small but welcome improvement. Since no part of the UK economy is standing still and SWE has a higher propensity than most to attract new immigrants, it is difficult to shift these ratios year-by-year.
- SWE's relative ranking was fourth of the English nine and fifth of the UK twelve regions and devolved administrations. Whilst this ranking is unchanged, SWE

gained some ground against the two regions immediately above it (Scotland and East England) and opened up more of a lead over the one below (East Midlands). Again, given the short term difficulty in narrowing inter-regional productivity gaps, this is a good performance.

- The regional economy generated total income worth almost £90 billion in nominal terms in 2006. This may have reached £95 billion in 2007.
- GVA grew by 5.4% from 2005, compared with a UK average of 5.1%. SWE's share of the UK total GVA was 7.9% - virtually unchanged from 2005. The range of growth rates across the United Kingdom was from 4.5% in NW England to 5.7% in London.

Chart SM1 indicates the path of relative GVA growth since 1991. It shows the tendency for SWE to grow faster than the UK average. The acceleration in 2006 meant it was a year when the usual positive margin opened up again after the 2005 slowdown. The survey evidence we have suggests the region probably maintained a wider positive differential in 2007.

Chart SM1: GVA growth (% change, year-on-year) during the current UK expansion.

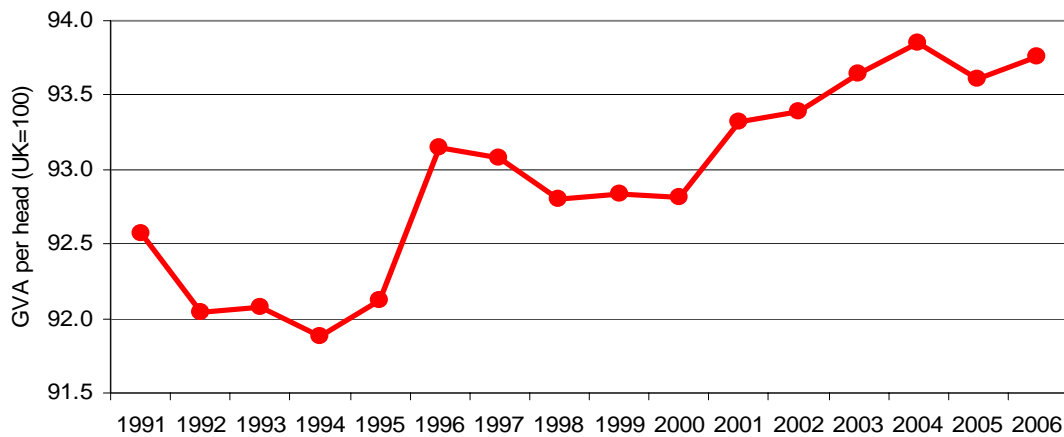


In relative terms, the South West's position on GVA per head was higher in 2006 than in any year within memory. SWE's relative GVA per head index has risen almost two points since the low (1994) and most of the improvement has been since 2000. Over the current long UK economic expansion, the positive growth differential for SWE has gradually improved its relative position on the GVA per head measure. As Chart SM2 shows, the relative index has increased from 91.9 in 1994 to 93.8 in 2006. Since 1999, supported by the Agency's positive interventions, there is a consistent positive trend, apart from the slowdown year of 2005.

- Because UK regions react to the overall UK macroeconomic trends with variable leads and lags, year-by-year comparison can be volatile. This medium term view, however, shows positive progress for SWE.
- Because, and especially in SWE, economic growth tends to attract population growth, it is difficult for GVA per head to move its relative position in anything but the long run. Therefore, the recent trend exposed by Chart SM2 is good evidence of positive economic performance in SWE, particularly since 1999.



Chart SM2: SWE GVA per head relative to UK = 100



### Sector Overview

The ONS has not published new industrial sector detail this year. This is supposed to be a temporary omission for a couple years whilst ONS statisticians concentrate on higher (largely national) priorities. It is a great shame that, despite the Allsopp Commission into regional statistics, ONS continues to give regional statistics a relatively low priority. The lack of updated industry data on GVA is a significant setback for those of us who are trying to judge what is happening in the regional and sub-regional economies.

Overall, in 2005-2007, we guess that there was a further fall in the primary and manufacturing sectors' shares of output relative to construction and private services, particularly finance and business services, whilst public sector services may be relatively unchanged. The continuing swing from production to services is the most significant structural change underway in the SW regional economy. In terms of relative contribution to GVA output, the already small share of the primary, land based sectors (not including amenity etc) continues to fall. The secondary, production sectors are losing share, largely thanks to manufacturing. Tertiary activity now accounts for nearly three quarters of total output, split roughly two thirds for private services and one third for public services.

### Sub-Regional Overview: NUTS 2

ONS also released 2005 data for GVA and productivity at a sub-regional level for the first time. Table SM2 below shows the NUTS 2 breakdown for the SWE.

At this level, Gloucestershire, Wiltshire and North Somerset (GWNS) contributed more than half of the region's output (53.5% in 2005, growing +3.9%). Dorset and Somerset (D&S) contributed 21.3% (+4.7%). Devon's share was 18.1% (+4.1%) and Cornwall and the Isles of Scilly' (CloS) share was 7.1% (+3.6%). 2005 was a relatively sluggish year for economic growth. From what we know of 2006 and 2007, we would expect the growth rates to be higher, especially for GWNS and CloS.

Table SM2: NUTS 2 GVA and GVA per Head in 2005

2004	GVA (£bn)	% of SW	GVA per head (£)	Index SW = 100	Index UK = 100
Gloucs, Wilts & N Som	45.4	53.5	20,295	121.6	114
Dorset & Somerset	18.1	21.3	14,868	89.1	83
Devon	15.4	18.1	13,841	83.0	78
Cornwall & IoS	6.0	7.1	11,501	69.0	65
S West	84.9	100	16,688	100	94

In terms of GVA per head, GWNS was the fourth highest part of the United Kingdom in 2005, whereas CloS remained last of all UK sub-regions. The growth rates in GVA per head for the NUTS 2 areas were lower than the overall growth figures (+2.8% for GWNS, +4.2% D&S, +2.7% Devon and +3.1% CloS) because of the associated population growth.

The interesting thing is that, whilst CloS remains relatively low in absolute terms, its trend is relatively positive, whereas the fortunes of other areas are waning by comparison. Since 1999, GWNS has advanced from 112% of the national average to 114% and CloS has climbed from 60% to 65% - a strong performance in five years, whereas Devon has slipped slightly from 79% to 78% and D&S from 84% to 83%.

On this crude workplace/residence measure, the productivity trends within SWE display harder edges and a softer centre. The region's economy is still characterised largely by its wide intra-regional disparities rather than the overall position which, excluding London, is broadly average.

### Sub-Regional Overview: NUTS 3

Table SM3 shows the NUTS 3 level detail for the unitary areas and the county councils.

In 2005, the highest rate of GVA growth was recorded by Torbay (+5.3%). This was a welcome bounce after a torrid sequence but the area remains the weakest performer overall in terms of relative GVA per head. Other relatively strong GVA growers were Somerset (+5.0%) and North and North East Somerset and South Gloucestershire (NNESEG) and Dorset (both 4.9%).

At the other end of the range, Bristol's growth only reached 3.1% and Wiltshire and CloS both 3.5%. It is clear that the overall slowdown in economic growth experienced nationally and regionally in 2005 was concentrated in those areas which "normally" perform relatively well. When we have official data for 2006 and 2007, therefore, years in which overall growth was relatively stronger, we would expect relative intra-regional fortunes to revert to type, with urban concentrations outperforming less integrated economies.

At this NUTS 3 level, Swindon ranks as the fourth highest area for GVA per head in the whole United Kingdom, behind only Inner London West, Edinburgh and Berkshire. Swindon's high relative index of GVA per head, however, has slipped noticeably after the 'dot.com bust' in the early 2000s. Its relative score has slipped 11 points since the peak in 1998 but has levelled out at an index just above 150 since 2002.



Table SM3: NUTS 3 GVA and GVA per head in 2005 and the change since 1999

2005	GVA (£bn)	GVA per head (£)	Index UK = 100	Point change since 1999
<b>Gloucs, Wilts, &amp; N Som</b>	<b>45.4</b>	<b>20,295</b>	<b>114</b>	<b>+2</b>
Swindon	5.0	27,354	153	-9
Wiltshire	7.1	15,778	89	-3
Bristol	9.5	23,434	131	-8
N&NE Somerset, S Glocs	12.5	19,984	112	+9
Gloucestershire	11.3	19,665	110	+8
<b>Dorset &amp; Somerset</b>	<b>18.1</b>	<b>14,868</b>	<b>83</b>	<b>0</b>
Bournemouth & Poole	5.2	17,378	97	+1
Dorset	5.2	13,059	73	0
Somerset	7.6	14,826	83	-1
<b>Devon</b>	<b>15.4</b>	<b>13,944</b>	<b>78</b>	<b>-1</b>
Plymouth	3.7	14,937	84	-2
Torbay	1.5	11,247	63	-9
Devon	10.2	13,944	78	+1
<b>Cornwall &amp; IoS</b>	<b>6.0</b>	<b>11,510</b>	<b>65</b>	<b>+4</b>
<b>South West</b>	<b>84.9</b>	<b>16,688</b>	<b>94</b>	<b>+1</b>

The difference in trend between the Greater Bristol area and CloS and the other sub-regions is stark. Torbay and Swindon have suffered SWE's largest relative GVA per head declines since 1999. Their respective fortunes remain very different, however, with the latter still "best in the region" and the former "worst". In contrast, the area around Bristol (NNESEG and Gloucestershire) has raised its relative scores quite significantly. CloS has also benefited from an upturn, led by public sector intervention from the EU and the RDA. Much of the "middle" of the region (Devon, Dorset and Somerset) has moved very little.

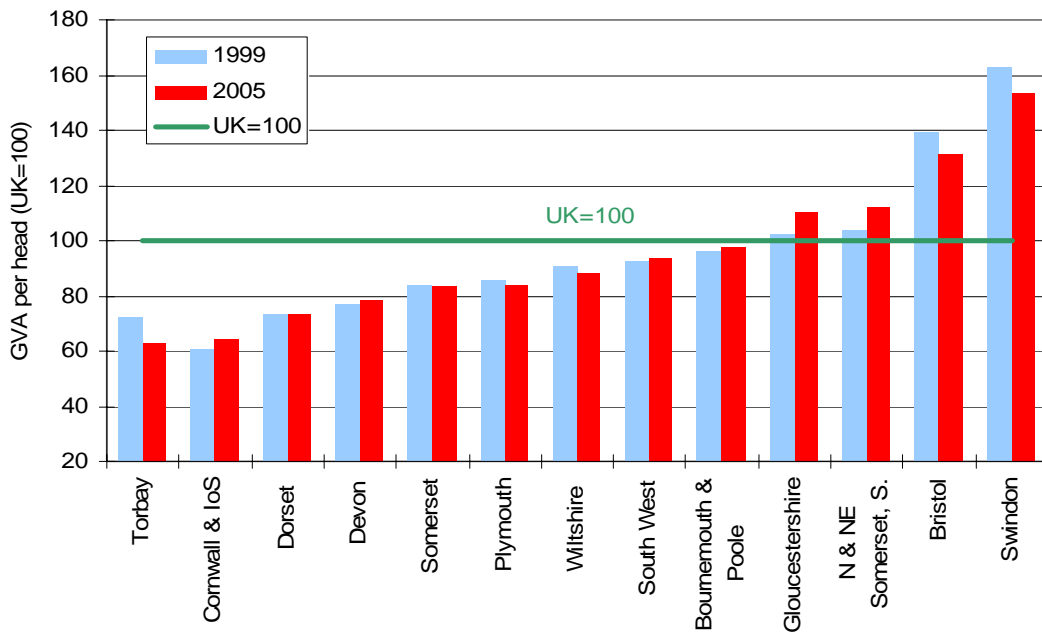
It is vital to remember, however, that these are *relative* figures. In 2005, GVA per head increased in all our NUTS 3 areas around an average of about 3.2% and within a range from +5.0% in Torbay to +1.1% in Bristol. Because of year-to-year volatility, however, it is more useful to look at growth over a longer period than one year, especially when that year, as with 2005, is a year of slowdown.

In essence, then, all SWE areas are growing but some are growing more than others, especially in real terms. We do not have any regional price deflators in the United Kingdom but, if we did, the overall rate of SWE inflation would probably not be that different from the UK average.

Chart SM3 below depicts the intra-regional disparities on GVA per head across the region in 1999 and 2005. It emphasises that only four of the five sub-regions of GWNS are above the UK average in terms of relative GVA per head and, apart from CloS, that is where the gains are still being made. Bournemouth and Poole, and Devon are slightly higher over time but roughly holding their relative positions given the statistical variability at this level, whereas the rest show equally insignificant relative declines.

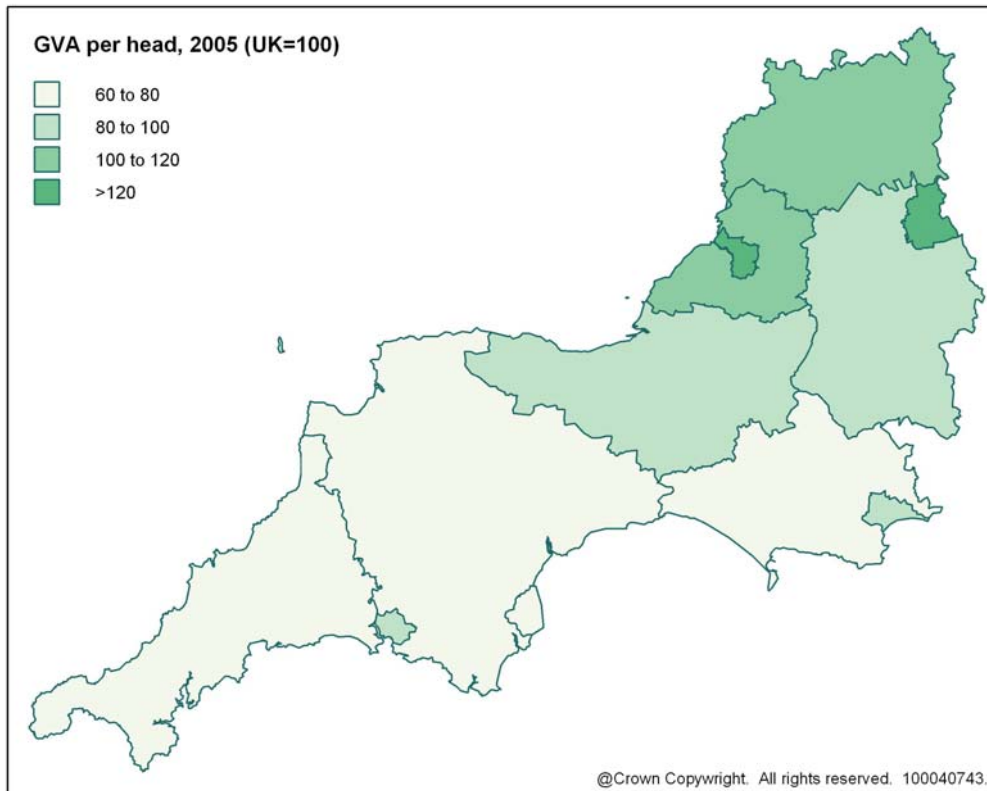


Chart SM3: GVA per Head indices relative to the UK Average, 1999 & 2005



Finally, Chart SM4 shows the latest relative GVA per head indices on a map of the region. It pictorially represents many of the factors identified through this text. On this measure, SWE's economy displays a clear relative gradient from north/east to south/west through the region. It also shows the relative importance of urban centres in each part of SWE.

Chart SM4: GVA per Head indices



## Conclusion

Analysing the latest (crude but important) measures of regional economic performance, we can see:

- In broad terms, the economy of SWE is doing somewhat better than holding its own in the UK economic league and its relative productivity performance has improved over the last few years
- In 2006, SWE was affected by the general UK economic acceleration: its “usual” positive growth differential over the average reappeared
- As a snapshot (latest year), intra-regional disparities continue to display the effects of time-distance on absolute and relative economic activity
- However, a hard rim - north/north east and far south west – contrasts with a softer centre in terms of recent trends.
- Although we have only just got sub-regional detail for 2005, we know from the overall regional data highlighted here that 2006 was a good year for SWE and, from current anecdotal evidence, 2007 has also been strong too... at least until the very end of the year.
- There is some nervousness about 2008, with the ramifications of the banking sector liquidity crunch expected to moderate business and household confidence and, thereby, discretionary spending.

Nigel F Jump, Chief Economist  
with support from Allison McCaig and Ian Jepson  
14th December 2007