

## SOUTH WEST ECONOMY PROJECTIONS: SPRING 2008

This bulletin presents our latest output and employment projections for the South West of England. These are uncertain times for the world economy, with continuing disruption to global financial markets undermining most countries' growth prospects.

UK financial markets have been weak and volatile for some time. Housing markets appear to be slowing. And, both business and consumer confidence is declining. What hard data are available, however, show only very slightly weaker labour market conditions, and economic activity is holding up in most sectors of the economy. Nevertheless, weaker growth is to be expected this year and next, both nationally and in the South West.

The current average of independent forecasts for the UK economy is that real output (real GDP) will grow by around 1.8 per cent during 2008 and 2.0 per cent during 2009, before returning to trend growth from 2010 onwards. On this basis, we project that gross value added (GVA) in the South West will grow by around 5.6 per cent a year, on average, between 2008 and 2010 in current price terms, and by 5.8 per cent a year between 2010 and 2015. Once adjusted for expected inflation, this suggests 'real' growth of around 2.5 per cent a year over the period as a whole. These output projections are consistent with growth of South West employment of around 40,000 employee jobs a year between 2007 and 2015.

The methodology adopted for these projections tends to be a more reliable for identifying longer-term growth trends than short-term cyclical movements, especially at times of significant turning point.

### OUR PARTNERSHIPS



## BACKGROUND

These are uncertain times for the world economy, with continuing disruption to global financial markets undermining most countries' growth prospects. The damaging consequences of the 'credit crunch' have been particularly focused within the United States, which was the principal source of the initial problem. In America, the disruption in financial markets together with the associated declines in property and other asset markets, is feeding into the real economy, dampening consumers' expenditure and restricting business investment. At the same time, rising prices for energy, food and imports generally (due to the weakness of the dollar) are squeezing household incomes, further restricting consumer demand. Whether the United States is already in recession is not clear, but most commentators expect, at best, weak US growth both this year and next, even given the Federal Reserve Bank's strong policy response to date.

Prospects in other markets, particularly China and India, look stronger, although even here short term growth prospects are more muted than previously thought. In China, there are signs that continued rapid growth is beginning to generate inflationary pressures, forcing the authorities to dampen demand in the hope of restoring price stability. The continued strong growth of the Asian economies is a double-edged sword for the West. It provides an expanding export market to offset the declining US market. However, continued pressure on commodity prices is also supporting higher inflation in America and Europe, which constrains the scope for monetary policies to reduce interest rates. The recent OECD *Interim Growth Assessment* argues that the case for a policy stimulus to support growth is much stronger in the US than in Europe and the UK – where inflationary risks are a greater concern. Similar concerns appear to be guiding recent judgements by the Bank of England's Monetary Policy Committee.

The UK economy is showing some signs of weakness. UK financial markets have been weak and volatile for some time. Housing markets appear to be slowing. And both business and consumer confidence is declining. Recent ONS expenditure data show sharp declines in consumer expenditure growth and falling business investment. Exports are stronger, and imports weaker, providing a stimulus to UK output. There is evidence that companies' stocks of finished and partially finished goods are rising – an indication that previous production levels are running ahead of demand. Stocks have been rising fastest in construction. Recent employers' surveys suggest that employment intentions are weakening. What hard data are available, however, show employment and vacancies holding up well. Meanwhile, high and rising commodity prices continue to put upward pressure on UK inflation.

The consensus view is that the UK economy will continue to grow, albeit at below trend rates, this year and next. Most forecasters have, however, significantly reduced their projected growth rates for the UK compared with forecasts made at the time of our previous projections. Thus, the median forecast from the HM Treasury survey for UK GDP growth in 2008 has declined from 2.1 per cent last October to 1.8 percent for the current forecast round (Table 1). All components of demand are predicted to be weaker, with particularly large slowdowns expected for investment (as more restrictive credit arrangements constrains borrowing for investment) and exports (due to slower growth in the US in particular), offset by slower import growth. The likelihood is that further downward revisions to forecasts occur before any recovery is anticipated.

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

(Median of independent forecasts)

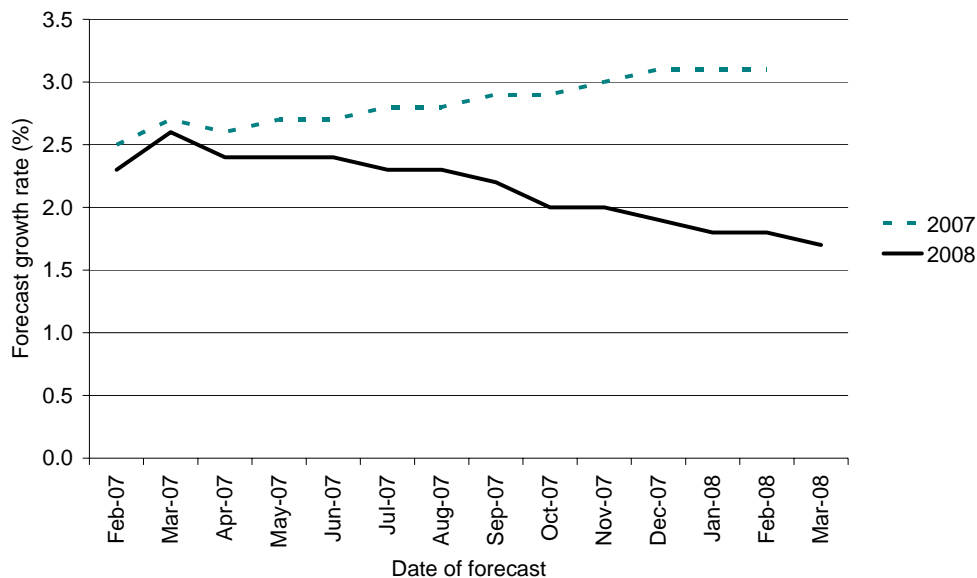
	Forecasts as of:			
	October 2007	2008	March 2008	2009
<i>Growth rates (%)</i> :				
GDP	3.0	2.1	1.8	2.0
Private Consumption	2.8	1.9	1.8	1.6
Government Consumption	1.9	2.4	2.2	2.0
Fixed Investment	5.4	2.6	2.1	2.3
Exports	-5.2	4.7	3.5	4.4
Imports	-3.6	3.9	3.0	3.6
Consumer Prices	2.0	2.0	2.4	1.9
Average Earnings	3.9	4.1	4.0	4.0
Employment	0.7	0.7	0.5	0.3
<i>Levels</i>				
Interest Rate	5.8	5.3	4.8	4.8
Claimant Unemployment (millions)	0.90	0.90	0.90	1.00

Source: HM Treasury - Forecasts for the UK Economy

Since the credit crisis began last year, forecasters have been getting increasingly pessimistic about UK prospects during 2008. The average (mean) forecast for UK GDP growth in 2008 has declined from 2.6 per cent during March 2007 to 1.7 per cent during March 2008 (Figure 1). UK growth last year, however, generally ran ahead of forecasters' expectations, with ongoing upward revisions to forecast growth rates throughout the year.

**Figure 1: Forecast growth of UK GDP**

(Average of independent forecasts)



It is also difficult to judge the recent performance of the South West economy, given the paucity of reliable and timely data on regional trends. The most recent edition of *Labour Market Statistics – South West* published by ONS during February 2008, shows regional employment growing towards the end of last year, with employment up by around 53,000 compared to the previous year, and falls in both the ILO and claimant count measures of unemployment. However, survey evidence for the South West

generally mirrors the UK situation. Thus, the South West economy appears to be poised in a similar position to the national economy – with little sign of any actual slowdown yet, but with businesses reporting a more cautious outlook and expecting a more ‘challenging’ trading conditions over the remainder of the decade. The South West RDA’s ‘Mood of Business’ monitor (published as part of February’s *Economics Review*) reports growing concerns about ‘exposure to a global economic slowdown even if current activity is strong and the timing of any impact is uncertain’.

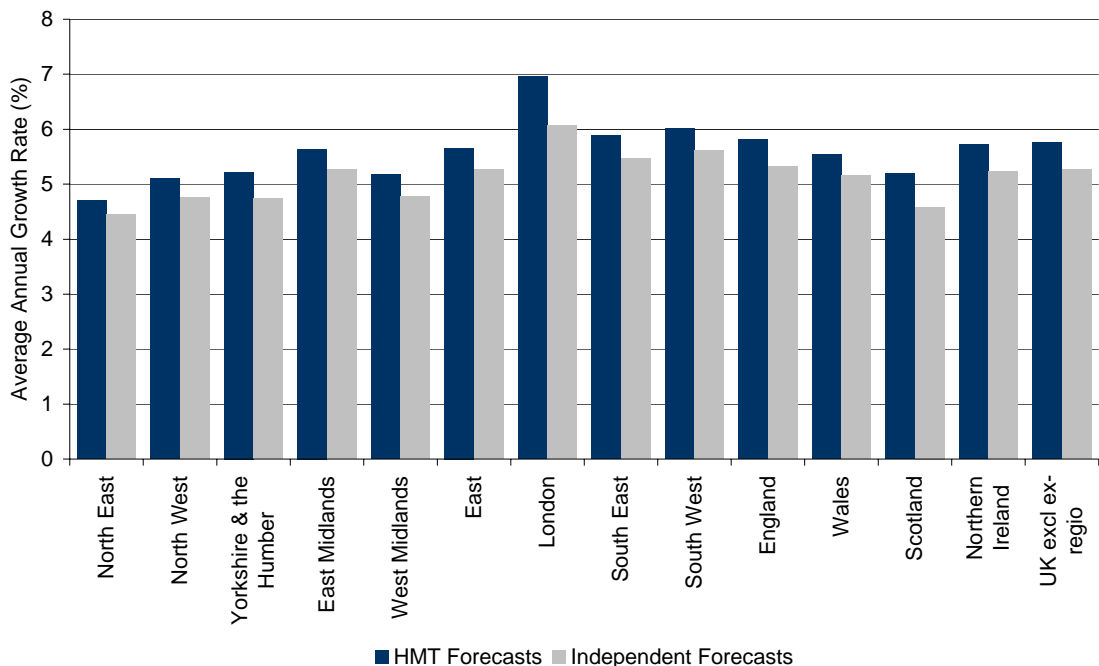
## OUTPUT (GVA) PROJECTIONS

Our current round of projections suggest slightly slower growth of GVA in the South West than in our previous projections, published during October 2007, with weaker growth during the period to 2010 in particular reflecting the poorer growth performance of the UK economy as a whole.

Our baseline projection is based on the average of independent forecasts for the UK from the HM Treasury Survey. This suggests that GVA from the South West will rise by around 5.6 per cent a year, on average and in current price terms, between 2008 and 2010 (Figure 2), and then by 5.8 per cent year between 2010 and 2015 (Figure 3), giving an average annual growth rate overall the period as a whole of 5.8 per cent. As a result, South West GVA is expected to increase from an estimated £96.1 billion in 2007, to £102.9 billion in 2008, £109.0 billion in 2009 and £114.8 billion in 2010, and to reach £152.5 billion in current prices by 2015. The South West’s projected growth rate during 2008-2015 is the 5<sup>th</sup> fastest among the UK regions, and the region has the 2<sup>nd</sup> highest projected growth rate during 2008-2010. Combining projected current price growth with expected inflation over the period to 2015 implies growth of ‘real’ (inflation adjusted) GVA in the South West at around 2.5 per cent a year.

**Figure 2: Projected Growth Rate of Regional Current Price GVA, 2008-2010**

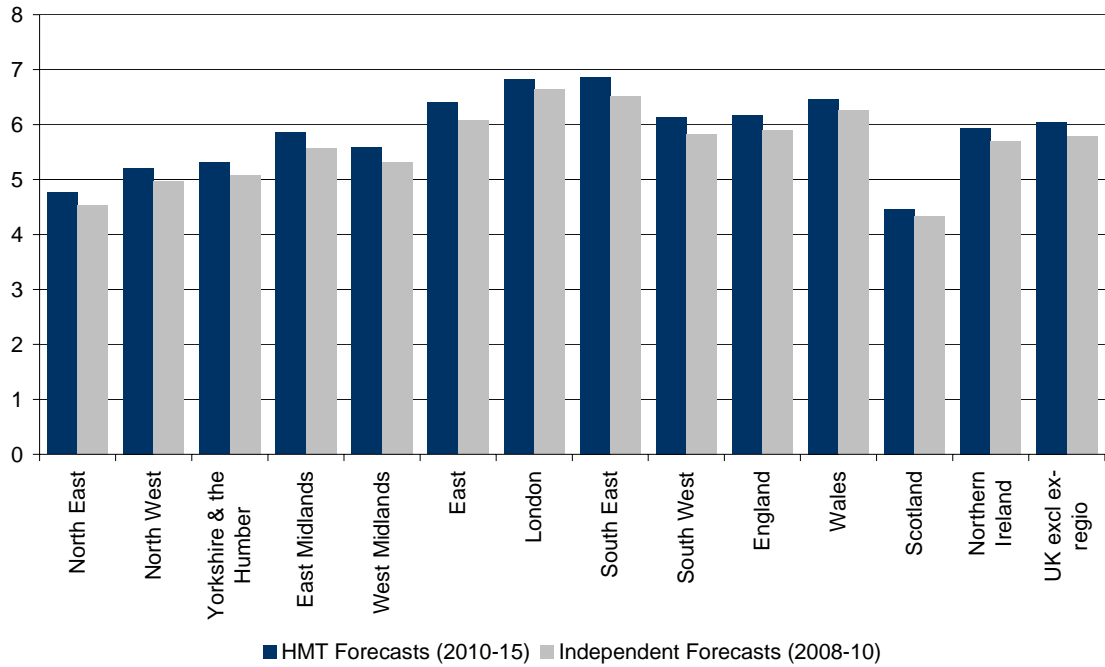
(Based on HM Treasury and Independent Forecasts for the UK economy)



The Treasury’s own forecasts are somewhat more optimistic than the average for independent forecasters. If the UK outturn is in line with the Treasury forecasts, we project stronger growth for the South West economy, with current price GVA growing

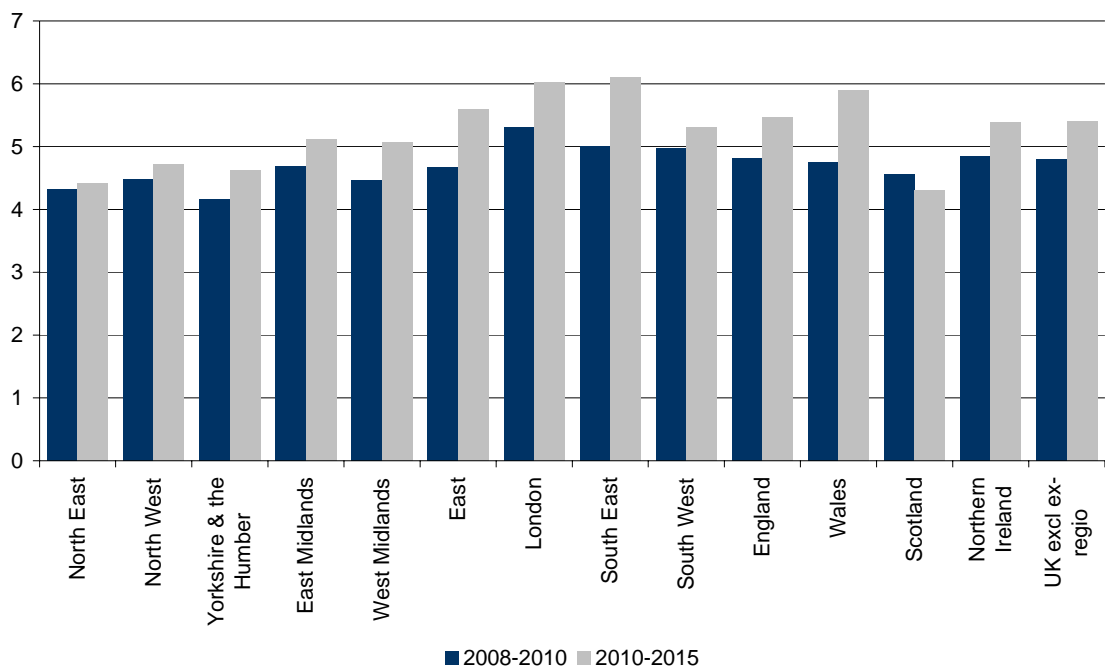
by 6.0 per cent a year during 2008-2010 and 6.1 per cent a year thereafter. These correspond to real growth rates of around 2.75 per cent a year.

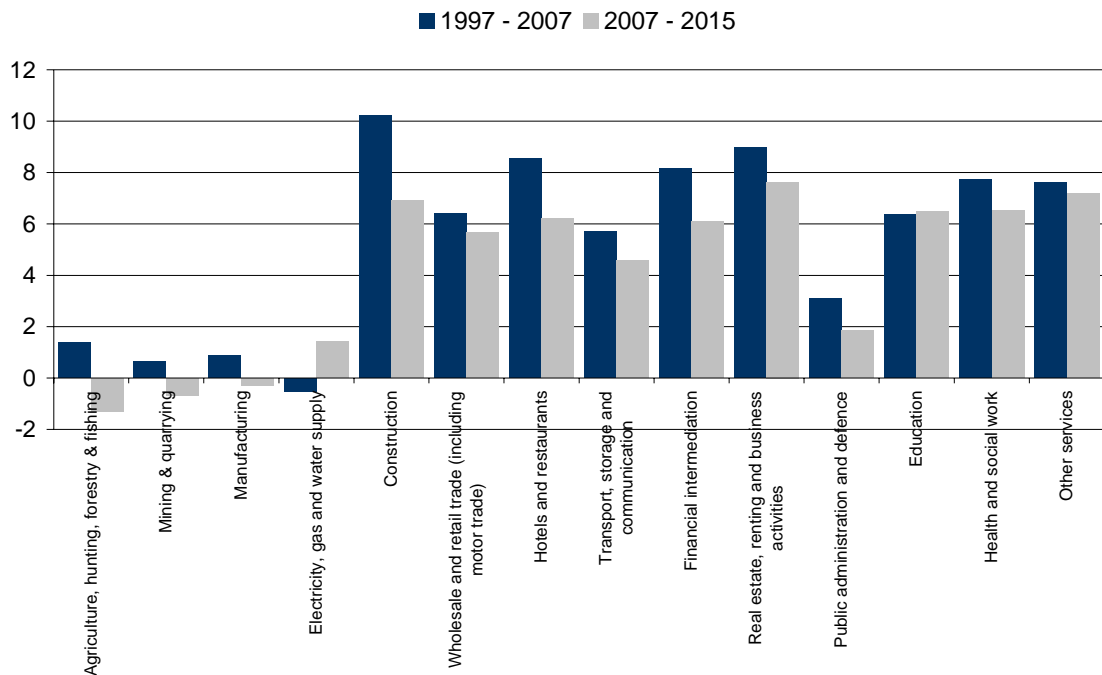
**Figure 3: Projected Growth Rate of Regional Current Price GVA, 2010-2015**  
(Based on HM Treasury and Independent Forecasts for the UK economy)



South West GVA per head is projected to rise from around £18,700 in 2007 and to £19,900 in 2008, and thereafter at an average rate of around 5.2% during 2008-2015, the 6<sup>th</sup> highest among the UK regions (Figure 4). This equals the projected growth rate for GVA per head across the UK as a whole, and implies growth of real GVA per head at around 1.75 per cent a year.

**Figure 4: Projected Growth Rate of Current Price GVA per head**  
(Based on Independent Forecasts for the UK economy)



**Figure 5: South West Output Growth by Industry**

Our most recent projections suggest slower growth in output for all South West industry sectors other than electricity, gas & water, and education during 2007-15 than was achieved over the period 1997-2007. Growth of output in Construction, Hotels & Restaurants and Financial Services, in particular, are predicted to slow sharply, although all of these sectors will enjoy significant growth over the period as a whole. 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.

While the broad consensus among forecasters is that the UK economy will continue to grow during 2008 and 2009, there are considerable risks of a more pessimistic outcome – with many commentators pointing to a significant risk that the UK will be caught up within a broader global recession. A recent BEM Simulation Bulletin (*A Global Credit Crunch? Modelling the Implications for South West England*) explored the implications of alternative scenarios for the UK economy until 2010. These included more severe, and prolonged, impacts from the credit squeeze leading to a UK recession during this year, and slow growth next year.

## EMPLOYMENT PROJECTIONS

Total employment in the South West, currently estimated at around 2.36 million employee jobs, is projected to rise by more than 40,000 a year on average during the period to 2015. This implies an average annual employment growth rate of 1.6 per cent a year during 2007-2015 (Figure 4). This represents a slowdown from the period of expansion which is partly inevitable and partly expected, reflecting demographic ageing, lower indigenous spare capacity and slower immigration growth from overseas. 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 6: Growth of Employee Jobs

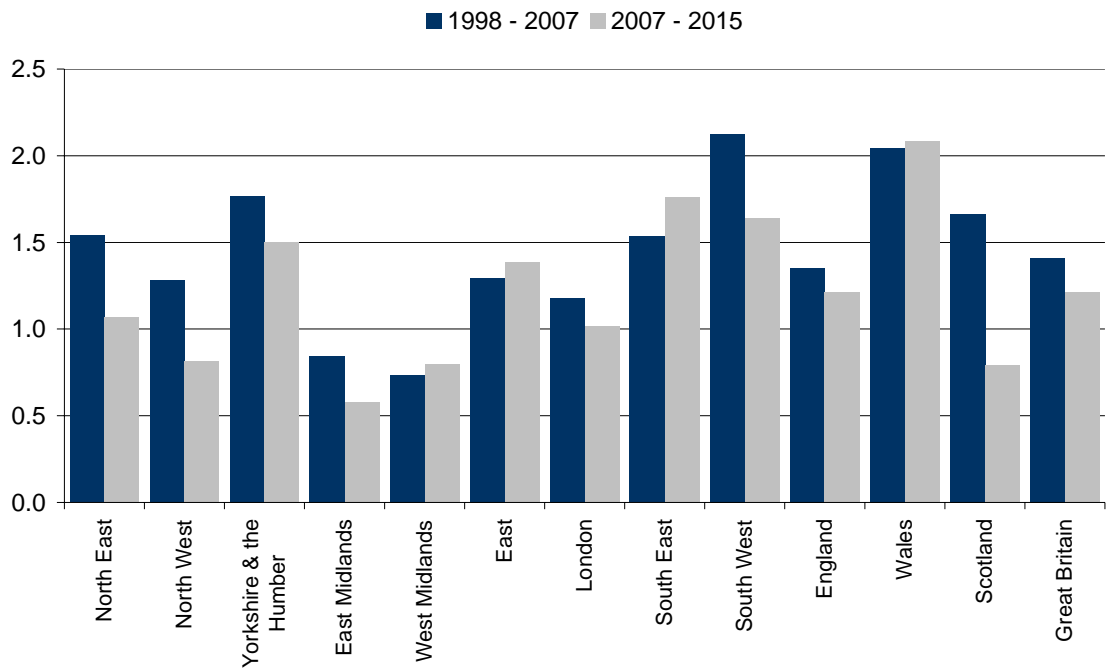
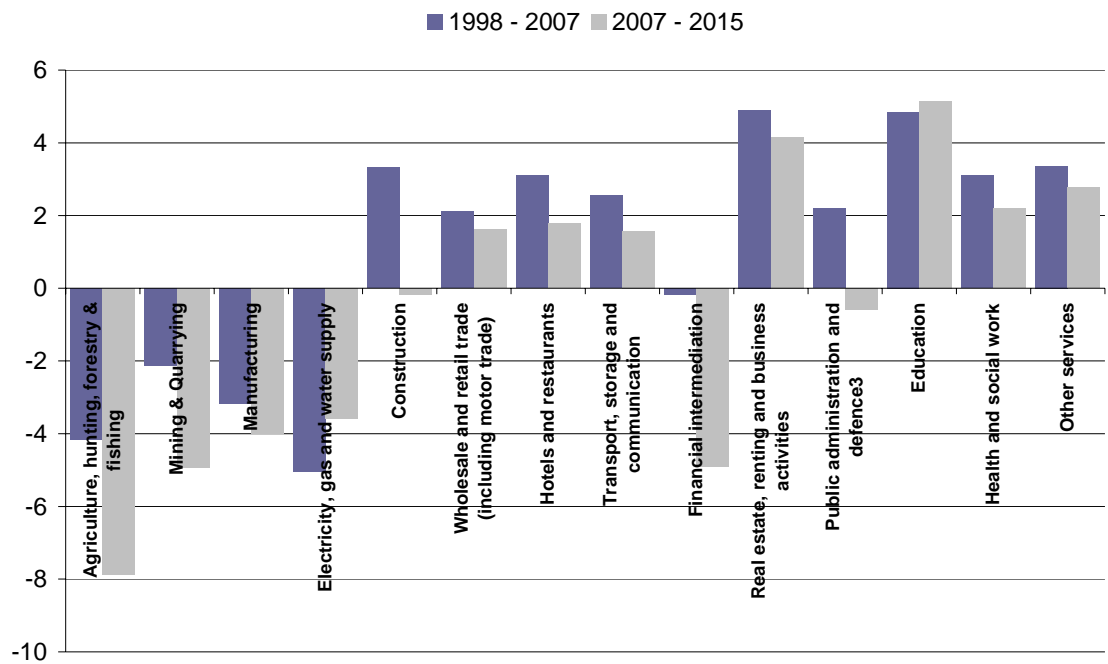


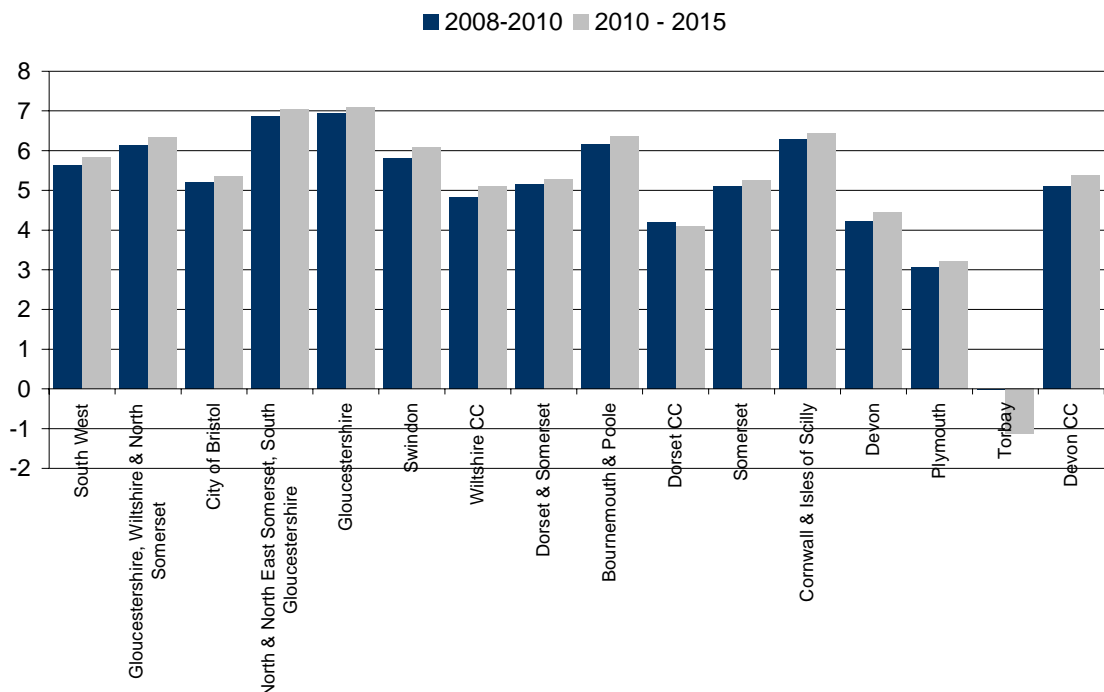
Figure 7: South West Employment Growth by Sector



## SOUTH WEST SUB-REGIONS

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 conurbation) and Devon. All areas are predicted to have slower growth during this year and next than over the recent past, but growth recovers from 2010 onwards in all sub-regions other than Torquay, which is stagnant during 2008-2010 and declining thereafter. It is worth noting that these sub-regional projections are based on relatively simple trend projection methods, which tend to extrapolate the poor recent performance of the Torquay economy into the future. We would anticipate that Torquay's growth performance will turn out to be stronger than suggested by these projections, especially if the area gets some priority in public investment but that is straying beyond projections into forecasting.

Figure 8: 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| 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: UK REGIONAL PROJECTIONS**

	1997	2006	2007	2008	2009	2015	Average annual growth rate (%)	
							1997-2007	2007-2015
<b>GVA (£m, current price)</b>								
North East	25,300	37,100	39,600	40,700	42,300	54,700	4.6	4.1
North West	73,700	110,900	119,200	122,800	128,000	169,900	4.9	4.5
Yorkshire & the Humber	53,900	82,600	88,700	92,100	95,900	127,800	5.1	4.7
East Midlands	47,100	74,500	80,500	83,500	87,400	120,000	5.5	5.1
West Midlands	59,400	89,000	95,600	99,600	103,800	140,300	4.9	4.9
East	68,500	111,200	120,400	127,500	133,400	187,800	5.8	5.7
London	109,900	192,500	211,100	223,200	235,300	343,800	6.7	6.3
South East	107,900	176,300	192,600	205,000	214,600	309,600	6.0	6.1
South West	54,500	89,700	97,100	101,200	106,300	148,400	5.9	5.4
England	600,400	963,700	1,044,800	1,095,700	1,147,000	1,602,400	5.7	5.5
Wales	28,500	43,100	46,300	48,100	50,200	71,100	4.9	5.5
Scotland	60,700	90,200	96,500	97,900	101,800	130,700	4.8	3.9
Northern Ireland	16,400	26,400	28,500	29,900	31,200	43,100	5.7	5.3
UK excl ex-regio	706,000	1,123,400	1,216,100	1,271,500	1,330,200	1,847,300	5.6	5.4
<b>GVA per Head (£, current price)</b>								
North East	9,900	14,500	15,500	15,900	16,500	21,200	4.6	4.0
North West	10,900	16,100	17,300	17,800	18,500	24,200	4.8	4.3
Yorkshire & the Humber	10,900	16,200	17,300	17,800	18,500	24,000	4.7	4.2
East Midlands	11,400	17,200	18,500	19,100	19,800	26,500	4.9	4.6
West Midlands	11,300	16,600	17,700	18,400	19,100	25,500	4.6	4.6
East	13,000	20,000	21,500	22,600	23,500	32,200	5.1	5.2
London	15,700	25,400	27,600	29,000	30,300	42,700	5.8	5.6
South East	13,700	21,500	23,400	24,700	25,800	36,400	5.4	5.7
South West	11,300	17,500	18,900	19,500	20,400	27,600	5.3	4.9
England	12,300	19,000	20,500	21,400	22,300	30,400	5.2	5.0
Wales	9,900	14,500	15,500	16,000	16,700	23,100	4.6	5.1
Scotland	11,900	17,700	18,900	19,100	19,900	25,500	4.7	3.8
Northern Ireland	9,800	15,200	16,300	17,100	17,800	24,100	5.3	5.0
UK excl ex-regio	12,100	18,600	20,000	20,800	21,700	29,400	5.1	5.0
<b>Employment (ABI Employee Jobs)</b>								
North East	945,700	1,044,300	1,085,200	1,081,200	1,087,400	1,181,700	1.5	1.1
North West	2,788,600	3,045,900	3,127,100	3,136,200	3,183,800	3,336,900	1.3	0.8
Yorkshire & the Humber	2,049,700	2,299,500	2,400,400	2,416,300	2,433,400	2,704,100	1.8	1.5
East Midlands	1,752,400	1,827,100	1,890,100	1,876,600	1,875,100	1,979,200	0.8	0.6
West Midlands	2,290,700	2,366,900	2,447,400	2,446,000	2,445,300	2,608,300	0.7	0.8
East	2,187,800	2,358,300	2,456,200	2,487,900	2,496,900	2,742,500	1.3	1.4
London	3,764,100	4,011,700	4,183,700	4,207,500	4,194,900	4,536,300	1.2	1.0
South East	3,425,100	3,750,500	3,928,400	3,995,700	4,010,700	4,517,700	1.5	1.8
South West	1,950,900	2,252,500	2,357,200	2,364,100	2,390,400	2,685,000	2.1	1.6
England	21,155,000	22,956,700	23,875,600	24,011,500	24,117,900	26,291,600	1.4	1.2
Wales	1,038,100	1,195,800	1,245,700	1,255,800	1,269,800	1,469,400	2.0	2.1
Scotland	2,161,900	2,405,100	2,507,900	2,466,500	2,480,200	2,671,300	1.7	0.8
Great Britain	24,355,000	26,557,500	27,629,200	27,733,800	27,867,900	30,432,300	1.4	1.2

**SWBEM SOUTH WEST ECONOMIC PROJECTIONS****GVA (£m, current price)**

	1997	2006	2007	2008	2009	2015	Average Annual Growth Rate (%)	
							1997-2007	2007-2015
Agriculture, hunting, forestry & fishing	1,420	2,000	1,630	1,720	1,750	1,470	1.4	-1.3
Mining & Quarrying	370	400	400	390	400	380	0.7	-0.7
Manufacturing	11,270	12,540	12,300	12,410	12,490	12,010	0.9	-0.3
Electricity, gas and water supply	1,700	1,670	1,610	1,600	1,630	1,800	-0.5	1.4
Construction	2,950	6,700	7,820	8,380	8,950	13,340	10.2	6.9
Wholesale and retail trade (including motor trade)	6,490	10,820	12,080	12,500	13,070	18,750	6.4	5.7
Hotels and restaurants	1,770	3,380	4,030	4,170	4,420	6,520	8.5	6.2
Transport, storage and communication	3,470	5,500	6,030	6,310	6,560	8,630	5.7	4.6
Financial intermediation	3,060	6,940	6,710	7,320	7,860	10,760	8.1	6.1
Real estate, renting and business activities	10,320	21,010	24,390	25,420	27,160	43,920	9.0	7.6
Public administration and defence	3,990	5,350	5,410	5,490	5,580	6,270	3.1	1.9
Education	3,110	5,350	5,760	6,060	6,400	9,500	6.4	6.5
Health and social work	3,710	7,290	7,800	8,290	8,840	12,920	7.7	6.5
Other services	2,390	4,360	4,970	5,220	5,580	8,660	7.6	7.2
FISIM adjustment	1,470	3,640	3,810	4,070	4,360	6,540	10.0	7.0
<b>TOTAL</b>	<b>54,540</b>	<b>89,670</b>	<b>97,110</b>	<b>101,210</b>	<b>106,320</b>	<b>148,410</b>	<b>5.9</b>	<b>5.4</b>

**Employment (ABI Employee Jobs)**

	1998	2006	2007	2008	2009	2015	Average Annual Growth Rate (%)	
							1998-2007	2007-2015
Agriculture, hunting, forestry & fishing	35,500	28,100	31,800	24,200	23,700	13,700	-4.2	-7.9
Mining & Quarrying	6,100	4,500	5,300	5,000	4,800	3,500	-2.1	-4.9
Manufacturing	320,600	251,000	254,100	239,900	233,100	180,300	-3.2	-4.0
Electricity, gas and water supply	13,400	9,700	9,200	8,400	8,000	6,500	-5.0	-3.6
Construction	86,200	100,100	106,100	115,600	115,600	113,700	3.3	-0.2
Wholesale and retail trade (including motor trade)	364,300	405,700	409,400	439,600	437,600	490,400	2.1	1.6
Hotels and restaurants	148,800	169,200	171,300	195,800	194,200	220,500	3.1	1.8
Transport, storage and communication	93,400	111,900	110,100	117,300	119,300	131,200	2.6	1.6
Financial intermediation	79,900	79,900	90,700	78,700	77,000	55,500	-0.2	-4.9
Real estate, renting and business activities	227,900	325,200	312,000	350,500	353,600	464,500	4.9	4.2
Public administration and defence	105,300	120,700	129,700	128,000	126,700	122,800	2.2	-0.6
Education	156,800	215,200	226,300	240,300	249,800	341,700	4.9	5.2
Health and social work	229,800	286,100	294,500	302,400	308,400	352,700	3.1	2.2
Other services	82,800	100,300	102,000	111,400	112,300	134,700	3.4	2.8
<b>TOTAL</b>	<b>1,950,900</b>	<b>2,207,700</b>	<b>2,252,500</b>	<b>2,357,200</b>	<b>2,364,100</b>	<b>2,631,900</b>	<b>2.1</b>	<b>1.6</b>

**SWBEM: SOUTH WEST SUB-REGIONAL PROJECTIONS**

	1997	2006	2007	2008	2009	2015	Average Annual Growth Rate (%)	
							1997-2007	2007-2015
<b>GVA (£m, current prices)</b>								
<b>South West</b>	54,500	90,900	96,100	102,900	109,000	152,500	5.6	5.8
<b>Gloucestershire, Wiltshire and North Somerset</b>	28,800	49,700	52,700	56,800	60,400	87,000	6.1	6.3
Bristol City of	6,500	10,500	11,000	11,700	12,400	16,800	5.2	5.3
North and North East Somerset, South Gloucestershire	7,300	13,500	14,400	15,600	16,800	25,100	6.9	7.0
Gloucestershire	6,700	12,700	13,600	14,800	15,900	23,900	6.9	7.1
Swindon	3,400	5,500	5,800	6,200	6,600	9,300	5.8	6.1
Wiltshire CC	4,900	7,600	7,900	8,400	8,900	11,900	4.8	5.1
<b>Dorset and Somerset</b>	11,700	18,800	19,800	21,100	22,300	30,200	5.2	5.3
Bournemouth and Poole	3,300	5,600	5,900	6,300	6,800	9,700	6.2	6.4
Dorset CC	3,500	5,400	5,600	6,000	6,200	7,900	4.2	4.1
Somerset	4,900	7,800	8,300	8,800	9,300	12,600	5.1	5.3
<b>Cornwall and Isles of Scilly</b>	3,600	6,500	7,000	7,500	8,000	11,600	6.3	6.4
<b>Devon</b>	10,500	15,900	16,600	17,500	18,300	23,700	4.2	4.5
Plymouth	2,700	3,700	3,800	4,000	4,200	5,000	3.1	3.2
Torbay	1,200	1,400	1,400	1,500	1,500	1,400	0.0	-1.1
Devon CC	6,600	10,700	11,300	12,100	12,700	17,300	5.1	5.4
<b>GVA per Head (£, current prices)</b>								
<b>South West</b>	11,300	17,700	18,600	19,800	20,800	28,000	5.1	5.3
<b>Gloucestershire, Wiltshire and North Somerset</b>	13,600	22,100	23,300	25,000	26,500	37,000	5.5	5.9
Bristol City of	16,700	26,100	27,200	29,000	30,400	40,200	5.0	5.0
North and North East Somerset, South Gloucestershire	12,500	21,600	22,900	24,700	26,300	38,000	6.2	6.6
Gloucestershire	12,000	21,900	23,400	25,300	27,100	39,700	6.9	6.8
Swindon	19,400	29,600	31,200	33,400	35,300	49,000	4.8	5.8
Wiltshire CC	11,700	16,600	17,300	18,300	19,100	24,600	4.0	4.5
<b>Dorset and Somerset</b>	10,000	15,200	15,900	16,900	17,700	23,300	4.8	4.8
Bournemouth and Poole	11,000	18,400	19,400	20,900	22,300	31,600	5.9	6.3
Dorset CC	9,200	13,200	13,800	14,500	15,000	18,500	4.1	3.7
Somerset	10,100	14,900	15,600	16,500	17,300	22,300	4.5	4.6
<b>Cornwall and Isles of Scilly</b>	7,400	12,300	13,000	13,900	14,600	20,200	5.8	5.6
<b>Devon</b>	10,000	14,000	14,500	15,200	15,800	19,500	3.8	3.7
Plymouth	11,000	15,000	15,400	16,100	16,600	19,600	3.4	3.0
Torbay	9,600	10,400	10,400	10,400	10,400	9,200	0.8	-1.4
Devon CC	9,700	14,400	15,000	15,800	16,500	21,400	4.5	4.5