Bournemouth University

Regional Economic Development
Local Economy Briefing – 0415.1

The South East - South West Divide: Relative Productivity in southern England[1]

The ONS recently finalised its sub-national productivity data for 2013. The following table highlights the main measures for smoothed GVA per hour across local LEP areas, shown as indices based on the UK average being set as an index of 100.

	GVA per hour (smoothed indices, UK =100)			
	2007	2009	2011	2013
Heart of the South West	86.3	85.3	83.9	83.8
West of England	101.3	102.4	102.3	101.4
Gloucestershire	98.9	94.6	94.0	94.1
Swindon & Wiltshire	104.8	107.3	105.9	105.0
Dorset	91.8	91.3	91.6	92.7
Solent	104.0	105.6	104.3	103.0
Enterprise M3	115.1	115.2	114.6	116.2

The first message from this data is the wide variance of the numbers, which indicates an east - west divide in southern England. This divide reflects urban - rural divergence, including commuting patterns and demographic distribution. There is a large gap (almost 30 percentage points) of relative productivity differential from the Heart of the SW area to the Enterprise M3 area. Dorset sits in the lower part of the range, ranking sixth out of the seven LEP areas shown.

The second message is that the revealed productivity gaps tended to widen during the recent six years of downturn. The SW peninsula has lost comparative ground against the South central area. Dorset has recently moved back above its pre-recession high.

[1] This is the first of a series of briefings about the economy of Dorset and its hinterland that will be provided by Bournemouth University for its local business communities.

Often, these differentials are expected to narrow when the overall economy is growing more slowly, largely reflecting the reining back of innovative investment and more restrained growth generally in the places with highest added value at times of comparatively weak demand. During the recent downturn, however, the opposite has happened. The downturn was one of widening differences reflecting underlying market characteristics, competitive engagement and overall performance.

Why does this matter? In the long run, productivity drives growth potential and standards of living. In particular, relative incomes reflect differentials in GVA per hour over time. In theory, these relative measures act like a pendulum with changes in relative cost differentials encouraging swings backwards and forwards over the long economic cycles. In practice, however, such differentials become structurally 'sticky'. They tend to get cemented in place and are very difficult to change. The distributional, inter-regional consequences of this, for good or ill, can be significant.

The slowing of regional development investment during the macroeconomic downturn served to broaden the East-West divide. The LEPs aim to refill aspects of this funding gap, influencing comparative competitive and differential trends. The productivity statistics shown here indicate that there is much work to do in this respect and, given differential funding between areas, it will be a protracted process with an uncertain outcome. It may be better to focus on raising an area's economic game against its own counterfactual than to expect a surge up the development league.

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