



Regional Economic Development : Local Economy Briefing 16

Dorset Productivity & the 'Modern Industrial Strategy'

Background

The government's consultation paper on a 'modern industrial strategy' (MIS), issued early this year, is about to close for initial responses. There is a lot of 'motherhood and apple pie' in the document – i.e. not a lot to disagree with. It is comprehensive, covering all the main tenets of sub-national economic development, encouraging all the main drivers of productivity-led growth, and putting emphasis on building competitiveness for the future.

The next stage will be a "White Paper" from HMT/DBEIS, promised for before the summer parliamentary recess, which, hopefully, will turn the MIS into something concrete on policy and delivery (including funding). At some point, perhaps in the first Autumn Budget later this year, we hope real action will be promulgated and adopted that helps local development partners – including BU, Dorset LEP, local authorities, private and related agencies (DCCI, IoD, FSB, Growth Hub et al) – to work closely together. There is a growing need to address Dorset's economic fragilities as we move through and beyond the BREXIT era.

This briefing considers some of the basic data on Dorset's absolute and relative position with regard to productivity and, thereby, in broad terms, where the MIS and local investment might focus from here.

Overall Output

Recently, ONS released its latest **LEP-based output and productivity** data (sadly still a bit historical i.e. 2015 - but these things only move slowly and 2016 is unlikely to have altered the overall perspective significantly).

Dorset's total GVA (gross value added, measuring current output/incomes in 2015) was £16.76bn, placing Dorset 31st out of the 39 LEP areas by overall size of the economy.

In terms of GVA per head (total population), Dorset performed 'better'. Its index measure of 86.4 (compared with a UK average = 100) was ranked 20th out of the 39 LEPs. This suggests a 'middling' ranking on this more comparable measure, which is sort of what you would expect for a southern economy with a distinct mix of urban and rural businesses, some strong market/sector leaders, and some areas where productivity and export engagement could be stronger.

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GVA per hour worked is a better measure of local productivity. In 2015, the smoothed GVA per hour rates for Dorset showed a figure of £29.10. In relative terms, this becomes an index of 91.6 i.e. the Dorset LEP area was only 8.4 (100-91.6) percentage points (pps) below the UK average on this key productivity measure. Given that the average includes a wide range of different UK urban and rural areas with varying degrees of agglomeration and peripherality, this is a creditable performance. In simple terms, Greater London pulls up the national average. Without that, Dorset performs well.

Industry Breakdown

In industrial terms, virtually all the recent growth in Dorset GVA (1997 onwards) has been in services, with most growth in professional, scientific and personal areas and an outright contraction in production.

The table below shows the movement over time in sector shares. The contrast between the production (reds) and private services (blues) is stark. Production has gone from c25% to c18% of the economy in less than two decades whereas private services (excluding real estate) have climbed from c37% to c42%. (These trends are not, of course, unique to Dorset but reflect wider national, indeed international developments.)

Share of Dorset GVA by industry (%)

	1997	2015		1997	2015
Agric, forest + fish	1.2	0.8	Distribution servs	18.0	18.6
Manufacturing	13.2	9.0	Info & Comms servs	2.7	3.1
Utils+mining etc	6.0	2.0	Finance & Insurance servs	7.0	7.5
Construction	6.0	6.8	Prof, Sci & Tech, & Admin	5.9	8.7
			Leis, Pers & other servs	3.3	4.5
Public, educ, & hlth	17.9	21.0	Real estate servs	19.0	18.1

Source: ONS

- Manufacturing now represents less than 10% of total output but it remains an important element in value creation, trade competitiveness and local productivity – and hence will probably still feature in the eventual MIS.
- Public services, real estate and distribution (wholesale, retail, transport and accommodation services) constitute major elements of local activity (over half together). These are areas that, with notable exceptions, can tend to lag in the productivity stakes but remain vital for jobs.

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- Finance, high tech and some personal/visitor services are growing elements where any MIS will need to focus if productivity-led growth is to become more than a wish.

Spatial Breakdown

Amongst the 12 “southern” LEP neighbours (as highlighted in the next table), Dorset ranked 10th on GVA per hour with only the two SW peninsula areas below it. Overall, across southern England, there are clear ‘east-west’ and ‘north-west’ divides in productive performance, overlaying the more traditionally recognised ‘urban-rural’ one.

Looking ahead, Dorset probably needs to move up this league. Without radical and largely undesirable change, it will never reach the productivity levels of the ‘top 3’ (based in the M3-M4 corridors). But, it should aspire to match and hopefully pass the lower mid-table areas of Gloucestershire, Swindon and Wiltshire and Solent. The trouble is, of course, no ‘team’ is standing still. The league ranking tends to be fairly static from year-to-year.

GVA per hour by LEP area, £ & UK = 100

LEP	£	Index	LEP	£	Index
Cornwall & IoS	25.6	80.4	Solent	31.4	98.7
Heart of the SW	27.2	85.5	Oxfordshire	34.2	107.5
Dorset	29.1	91.6	Coast to Capital	34.6	108.7
Gloucestershire	30.2	95.1	Bucks Thames Valley	36.8	115.7
Swindon & Wilts	31.2	98.1	Enterprise M3	37.0	116.2
West of England	32.6	102.3	Thames Valley Berkshire	40.4	126.8

Source ONS.

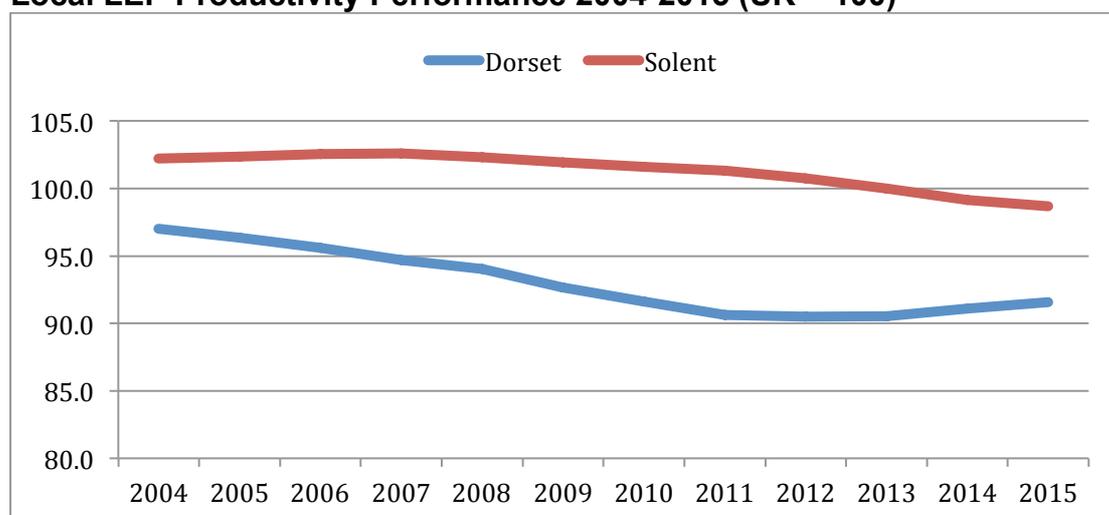
In terms of recent trends, the concern is how Dorset has lost relative ground against the national average. As the chart shows, GVA per hour dropped from just 3pps below average in 2004 to 9.5pps below average in 2012 and only recovered to 8.4pps below in 2015.

Again, part of the explanation for this relative decline is the more general widening of the gap between the economic ‘black hole’ that is Greater London and most of the rest of the country. London has pulled the UK average up (as Solent and many others have also found – as depicted in the chart) compared with the more economically peripheral areas.

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Nevertheless, the basic, recent story remains one of a poor local productivity performance in Dorset (and elsewhere) in absolute and relative terms. There has been something of a “lost” decade of productivity-led growth, and hence in potential living standards.

Local LEP Productivity Performance 2004-2015 (UK = 100)



Source: ONS

Conclusion

When it is finalised, the MIS may be the ‘bedrock’ of local economic development activity in the United Kingdom for the foreseeable future. As we negotiate BREXIT and emerge into a ‘new’ world of competitive economics, the emphasis on productivity-led growth will be crucial for Dorset as for elsewhere.

In approaching this future, Dorset starts with a mixed scoreboard – good in parts, but lagging in others. If it is to escape from ‘lower mid-table’ obscurity in the southern league, there will have to be investment and innovation across a range of activities, supported by skills acquisition and entrepreneurial aspiration and driving export competitiveness. Dorset needs better infrastructure, a deeper and wider sector base and more dynamic business creation and employment opportunities based on technological change.

This is easy to say but less easy to do, especially in an era of demographic aging. It is to be hoped the national MIS supports, and is supported by, local efforts to push Dorset up the economic league.



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