Regional Economic Development : Local Economy Briefing 15

The Annual Local GVA Release

Total GVA

On 15th December 2016, the Office of National Statistics (ONS) released the **regional gross value added** (GVA) statistics for 2015 with updates for previous years. These showed a Dorset economy that, in recent years, was growing reasonably well but, generally, not as well as before the last downturn. The 2008-15 period was more sluggish than the 2000-2007 period.

The Dorset economy was worth £16.76bn (GVA), on the basis of this income approach to measuring the total scale of the economy's performance, in 2015. Bournemouth and Poole (B&P) contributed 49% of this total and the rest of Dorset (DCC) 51%.

The 'all county' total was 3.2% more than in 2014, with B&P +3.7% and DCC +2.8%. These rates compared fairly well with +3.2% for SE England and +2.9% for SW England (including Dorset). Because inflation was low that year (indeed, the UK CPI did not increase at all), these nominal increases mostly represented real growth in economic output.

In scale (£16.76bn), the Dorset LEP economy was similar to those of Swindon/Wiltshire LEP and Gloucestershire LEP but smaller than Solent and, of course, the bigger neighbours such as Heart of the South West (Devon and Somerset), West of England (Greater Bristol), Thames Valley Berkshire, and Enterprise M3 (many parts of Hampshire and Surrey).

GVA per Head

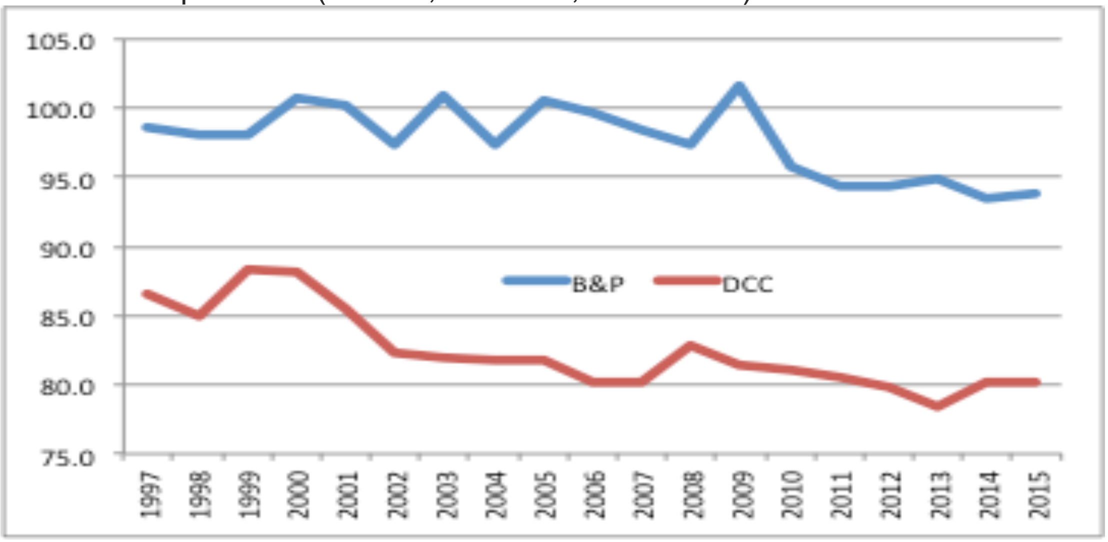
More importantly, in 2015, **GVA per head** (a measure of value added relative to the size of the resident population – an approximation of overall productivity that considers relative scale) was £23,787 in B&P (+2.6% on 2014) and £20,338 in DCC (+2.3%).

On this measure, the Dorset conurbation ranked reasonably well – well below Greater Bristol and Swindon but better than Plymouth and slightly above Southampton. The more rural 'county' area was similar to Somerset, but better than Devon, Wiltshire and South Hampshire respectively.

As an index, this GVA per head data put B&P at 93.8 and DCC at 80.2 compared with the UK average of 100. Hence, B&P and DCC were at 6.2% and 19.8% below average respectively. Given that the average includes London and other large economic centres, these below average rates are largely as expected. The real concern, however, is how these measures of relative performance have moved over time: is Dorset rising or falling in the national league table?

The chart shows that, in both of the main parts of Dorset, this GVA per head series has been slipping for most of the last two decades. In B&P's case, there was a marked step down (from close to 100% to just below 95%) after the 'Great Recession" (2008/9). There is no sign yet of any recovery. Meanwhile, DCC has lost relative ground fairly steadily over the whole period from a peak not far off 90% at the millennium to about 80% 15 years later. The performance gap between Dorset and the rest of the country is widening.

Dorset GVA per head (Indices, UK =100, 1997-2015)



Source: BU calculations on ONS data

Interpretation

It is important to stress that these indices are not, in any sense, making an absolute judgement about Dorset's economy. It does not mean that Dorset has been failing. It does mean, however, that Dorset has lost relative ground against the UK average and, therefore, the better performing parts of the country's economy. Across the country, the economic gap between the 'best' and the 'rest' has widened. Dorset is not actually declining and is holding its own compared with similar looking areas, but it has slipped against the average.

To some extent, this widening of comparative economic performance across the United Kingdom underpins the disquiet that exists in political spheres about widening gaps in living standards: growing dissatisfaction with the 'established order' and arguments about who benefits from 'globalisation'.

It also reflects the inability of 'inconsistent and small' regional policies to offset the bigger economic forces at work. The latter have favoured more concentration of growth and productivity in Greater London and a few other urban centres. (It is a bit like the difficulty the other teams have in competing with the top half dozen or so in the football premiership.)

The 'new' Industrial Strategy thought to be being planned by the present government to address questions of productivity and growth across the country will find it difficult to change this pattern of widening local differentials. Indeed, it may exaggerate it further because of its emphasis on national drivers of infrastructure (see Autumn Statement November 2016).

Economists have argued for years, without much resolution, as to whether this kinds of divergence matter. Is it better to have a bigger overall economy spurred on by its most dynamic areas, allowing 'trickle down' to the rest but with overall more inequality, or is it better to try to spread economic performance more evenly across the land – directly trying to bring up the laggards and promote a more diverse long term growth potential?

Here we get into questions about fairness in the income distribution – political rhetoric about populism, free trade, immigration et al. That debate is beyond this report but will be important for how BREXIT and other recent policy developments affect local economic activity in the years ahead.

Industrial Structure

Meanwhile, the latest regional data released in December also covers issues of **industrial structure**.

The accompanying table shows the shares of the main industrial sectors in Dorset and compares 2015 (first and third columns) with 2008 (second and fourth columns) – i.e. with the end of the last growth cycle. In 2008, all industries contributed £6.9bn and £7.6bn of GVA to B&P and DCC respectively. In 2015, the relative figures were £8.2bn and £8.6bn respectively, revealing modest growth over the intervening nine years.

Sector Shares (%)	B&P 2015 & 2008		DCC 2015 & 2008	
Agriculture, forestry and fishing	0.02	0.03	1.52	1.52
Production	1.46	1.64	2.37	5.04
Manufacturing	6.83	8.11	10.99	9.37
Construction	5.48	5.79	8.09	7.10
Distribution; transport; accommodation & food	18.94	16.95	18.34	17.83
Information and communication	3.53	3.44	2.71	2.57
Financial and insurance activities	13.95	16.97	1.26	1.69
Real estate activities	15.86	16.57	20.32	21.54
Business service activities	8.22	6.97	9.13	8.06
Public administration; education; health	21.76	19.75	20.17	20.59
Other services and household activities	3.95	3.79	5.11	4.67
All industries	100.00	100.00	100.00	100.00

Source BU calculations on ONS data

Amongst the things of note in the table are:

- A 1.3% decline in the contribution of manufacturing to B&P yet a rise of 1.6% in DCC. This may reflect partly different factory location decisions in parts of the physical conurbation beyond but near the Unitaries' boundaries.

- A rise in distribution, transport and accommodation/food in both areas (2% and 0.5% respectively). This may indicate partly changes in consumer behaviour towards retail (such as home deliveries) and leisure (such as eating/staying out).

- A drop in the shares of financial services and information and communications, especially in B&P (0.75% and 3% respectively). This may suggest a need for concern about the breadth of future added value and local pay even before any BREXIT adjustments are made.

- An increase in the B&P public service sector (2%) in contrast to a decline in DCC (0.4%). Does this reflect more spatial concentration of health services in the conurbation and recent growth at BU?

- A growth (over 1% for both) in the shares of real estate and business services. Intermediaries and brokers seem to be expanding their roles in the more complicated, digital economy.

Incomes & Profits

Finally, we consider **compensation of employees** (wages) and **gross trading profits** in 2015.

For profits, the top six sectors (80%+ of the total in each case) are shown in the table below for each of the main geographic areas. Notably, there is a clear structural difference between the two parts of Dorset, showing B&P to be largely services driven (private services about two thirds of total) and DCC having more reliance on its production base (about one third).

Dorset Gross Trading Profits by sector 2015

B&P	£mn	% of total
Financial Services	417	29
Distribution Services	318	23
Business Services	154	11
Public Services	139	10
Information & Communications	91	6
Manufacturing	77	5
All Industries	1410	100
DCC		
Distribution Services	374	24
Business Services	250	16
Manufacturing	243	16
Public Services	138	9
Construction	118	8
Production	108	7
All Industries	1529	100

Source: ONS

Employee compensation (largely wages and salaries), give a very different story than profitability about Dorset’s economy – not least because of ownership structure, pay rate and margin differences between industries and their varying employment patterns.

- In both B&P (all industries £4.7bn) and DCC (£4.5bn), 30% of employee incomes come from public services (largely local government, education and health) – representing partly a significant transfer of resources through the tax system.

- About 22% of incomes are created in the distribution sectors (retail, wholesale, transport, food and accommodation) – often consisting of major, but relatively low paying, employers.

- In B&P, another 23% is generated in financial, business and real estate services compared with an equivalent ratio of about half of that in DCC – this exhibits the urban concentration of the business community generally.

- On the production side, 10% and 15% respectively of incomes in B&P and DCC are from manufacturing whilst 5% and 9% respectively arise from construction – again, greater proportionate dependency on these activities occurs outside the conurbation.

Conclusion:

In most cases, the latest regional economic data confirms what we already believed about the Dorset Economy in terms of the structural characteristics and recent trends of economic performance. The new information leaves us with some broad headlines, mostly focussing on relative rather than absolute messages:

- Recent growth in GVA has been 'reasonable' but 'not as good as it used to be', before the 'Great Recession'.

- In per head terms, Dorset continues to 'lag' relative to the UK average. Indeed, the negative differentials are widening for both the 'conurbation' and the 'county'.

- Bournemouth and Poole tends to grow faster than the rest of Dorset because of its structural concentration in more value adding, profitable and better paying sectors.

- Dependence on services is greater in the conurbation whereas there is more reliance on production activities in more 'rural Dorset'. (This means in relative but not absolute terms.)

The second of these bullets is the most concerning. The drop in relative score - by about 5 percentage points for Bournemouth and Poole since the last downturn and of about 10 percentage points for the rest of Dorset over the last two decades - implies a competitive loss that, if maintained, will affect relative living standards adversely over time. Future local economic development policies and actions need to address these trends directly.