



Solent LEP

Economic outlook update

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Agenda

- Recent performance and outlook
 - GVA
 - Employment
 - Productivity
 - Demographics
 - Changes Autumn 2013 / Spring 2015
- Implication for targets
- Productivity

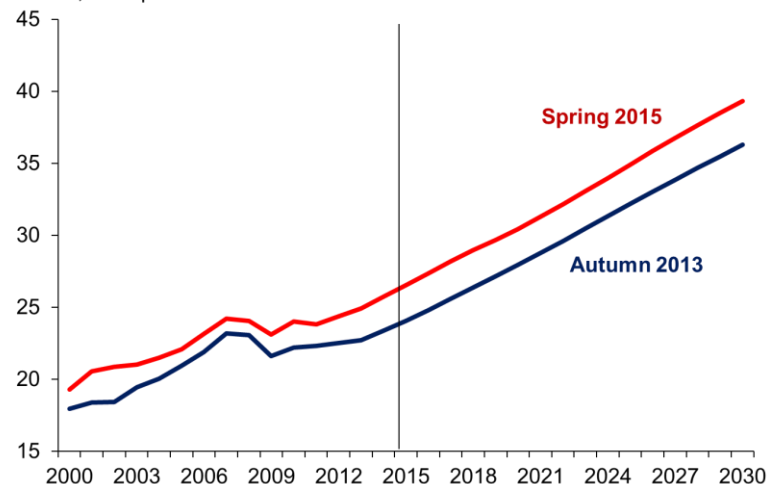


GVA – data revisions and stronger recent growth

- Solent GVA is currently higher than thought
 - Methodological changes to the UK national accounts
 - Shallower recession and faster subsequent recovery
- Solent GVA in 2014 = £25.8bn (2011 prices)
- Growth outlook relatively unchanged
 - 2014-20
 - Spring 2015 2.8%
 - Autumn 2013 3.0%
 - 2014-30
 - Spring 2015 2.7%
 - Autumn 2013 2.8%
- Solent GVA growth broadly in line with the national average and a little below the south east

Solent GVA

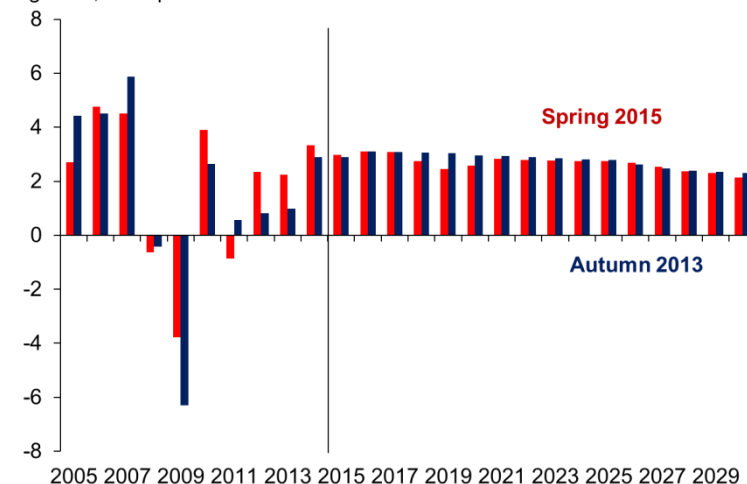
£ billion, 2011 prices



Source : Oxford Economics

Solent GVA

% growth, 2011 prices



Source : Oxford Economics

Employment – job creation has exceeded expectations...

- UK employment has exceeded expectations over the past 18 months
- Solent employment up 3% in 2014 (17,800 jobs), the strongest annual performance since 2002 and well above our autumn 2013 forecast
- Growth outlook revised up

■ 2014-20

- Spring 2015 0.8% 29,400 jobs
- Autumn 2013 0.7% 25,300 jobs

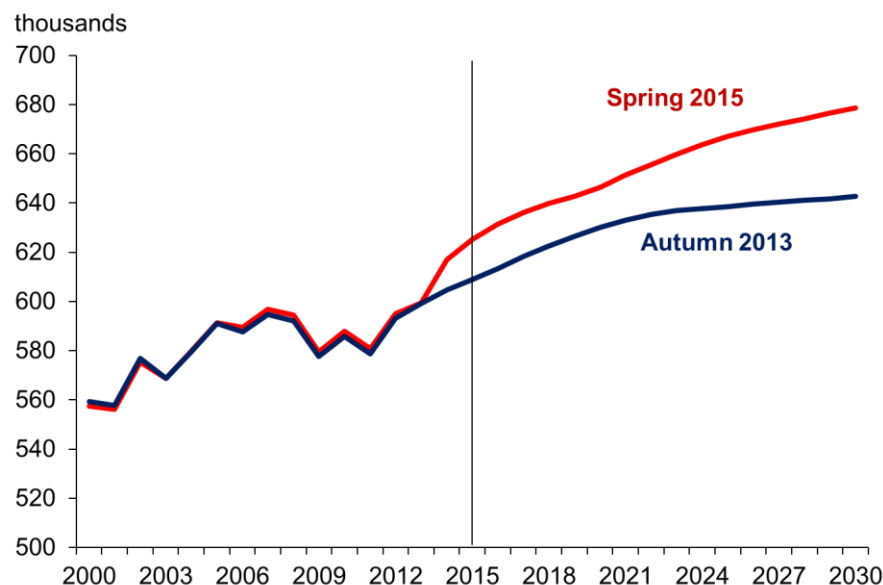
■ 2014-30

- Spring 2015 0.6% 61,500 jobs
- Autumn 2013 0.4% 38,100 jobs

■ Solent employment in 2030

- Spring 2015 678,600 jobs
- Autumn 2013 642,800 jobs
- Difference 35,800 jobs

Solent employment



Source : ONS / Oxford Economics

...to the benefit of local residents

● Resident employment

■ 2014-20

- Spring 2015 0.7% 24,500 people in work
- Autumn 2013 0.6% 22,600 people in work

■ 2014-30

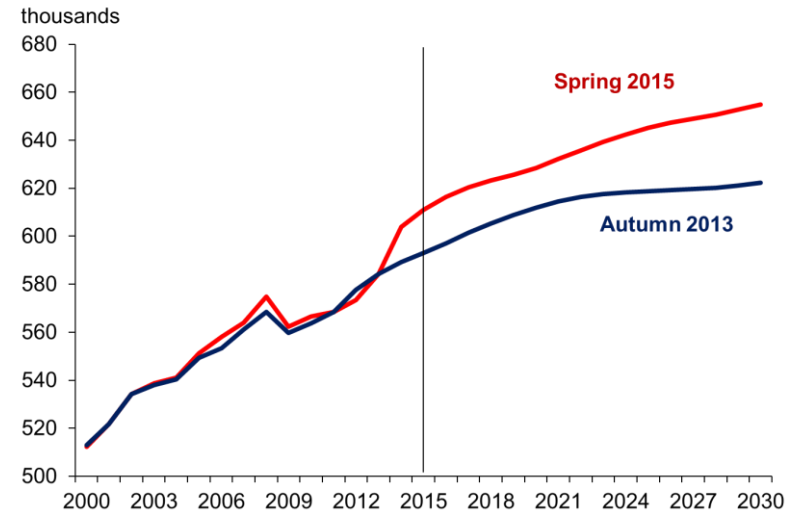
- Spring 2015 0.5% 50,900 people in work
- Autumn 2013 0.3% 33,000 people in work

■ Solent resident employment in 2030

- Spring 2015 654,800 people in work
- Autumn 2013 622,300 people in work
- Difference 32,500 people in work

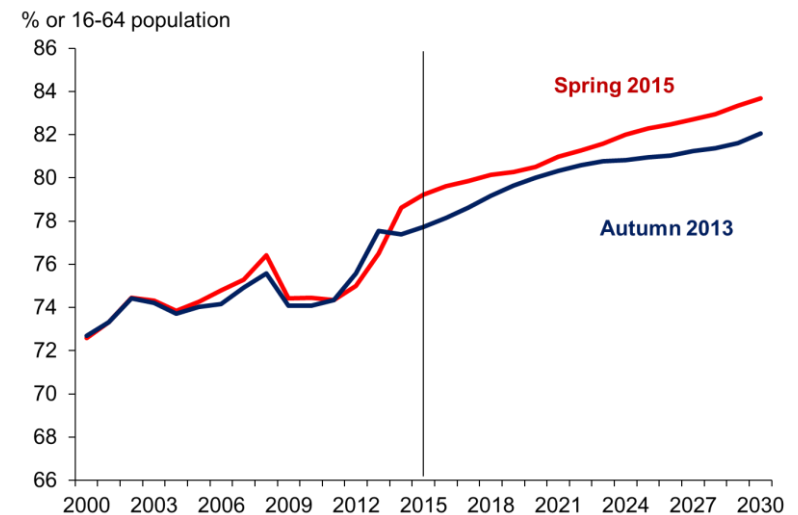
- Facilitates a steady rise in the resident employment rate and a reduction in unemployment

Solent resident employment



Source : ONS / Oxford Economics

Solent resident employment rate



Source : ONS / Oxford Economics

Productivity – expected improvement weaker than hoped

- Strong economic growth has been supported by jobs not productivity
- Higher productivity in Solent due to statistical revisions, but lower growth

■ 2014-20

- Spring 2015 2.0%
- Autumn 2013 2.3%

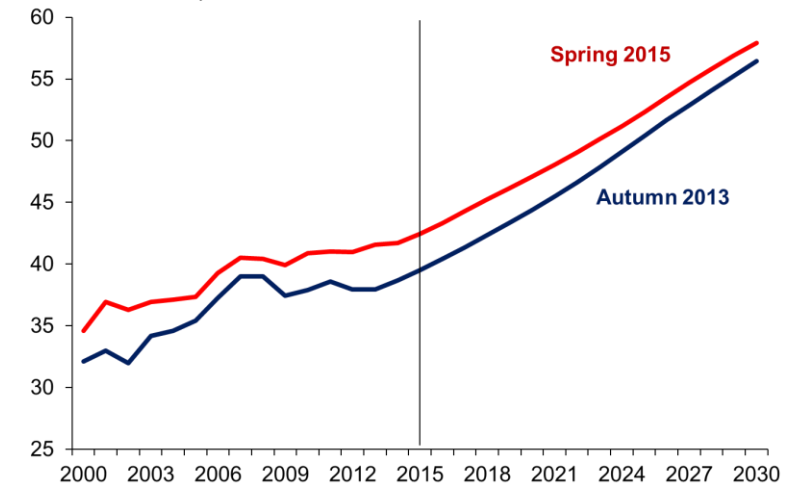
■ 2014-30

- Spring 2015 2.1%
- Autumn 2013 2.4%

- Solent 12% below the South East average and 5% below the UK average. Little change expected over the forecast period

Solent productivity

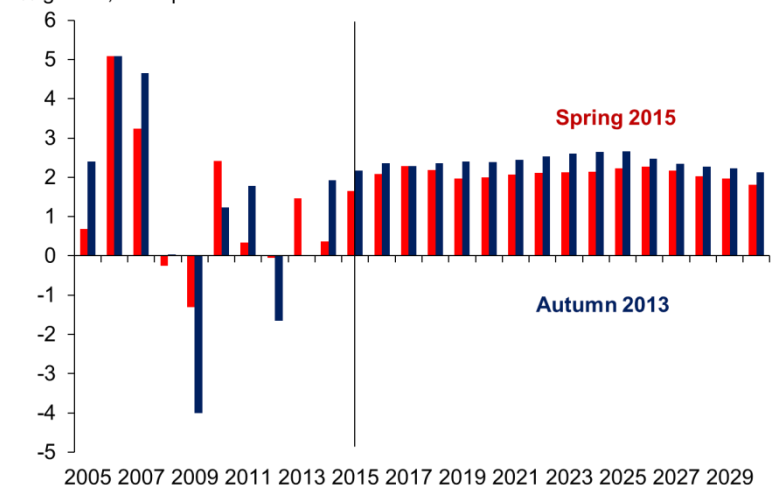
£ thousands, 2011 prices



Source : Oxford Economics

Solent productivity

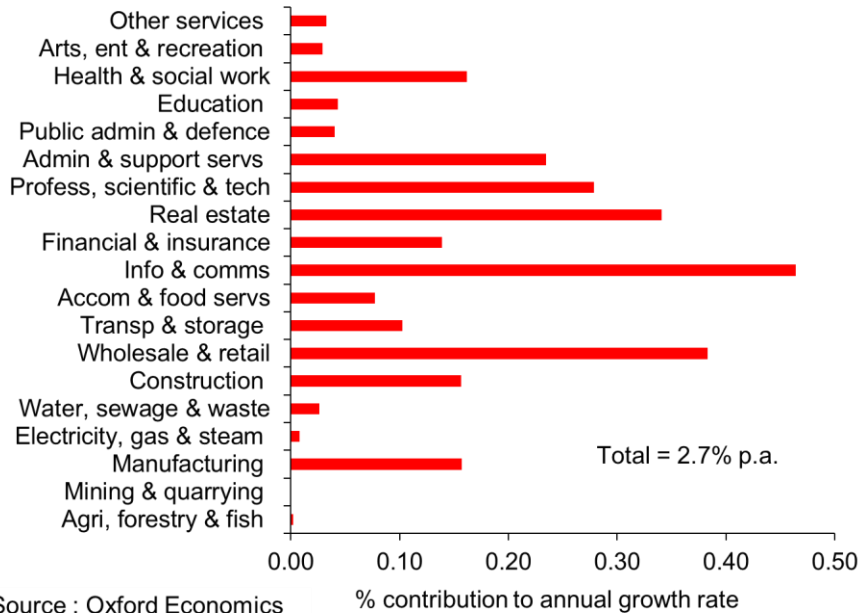
% growth, 2011 prices



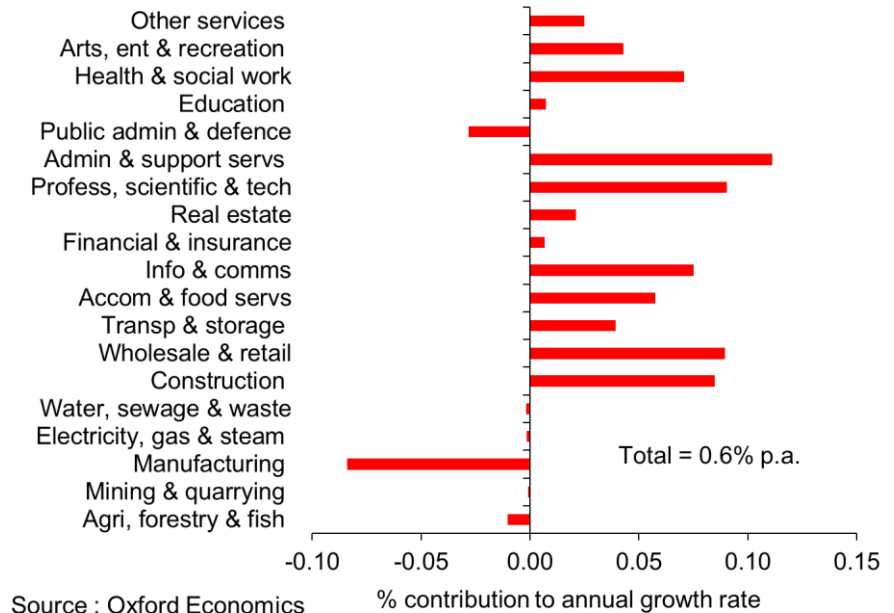
Source : Oxford Economics

Growth led by private services

Solent GVA 2014-30



Solent employment 2014-30



- Growth led by private services, especially for employment
- Rising manufacturing GVA achieved with fewer workers
- Public sector weakness most acute for public administration, mainly over the next five years.
- Demographic developments increase demand for frontline services, especially health

Population – will more jobs require more people?

- Upgrade to employment forecast means higher net migration and population

- Solent population

- 2014-20

- Spring 2015 0.8% 58,200 people
 - Autumn 2013 0.6% 44,500 people

- 2014-30

- Spring 2015 0.7% 134,900 people
 - Autumn 2013 0.5% 99,800 people

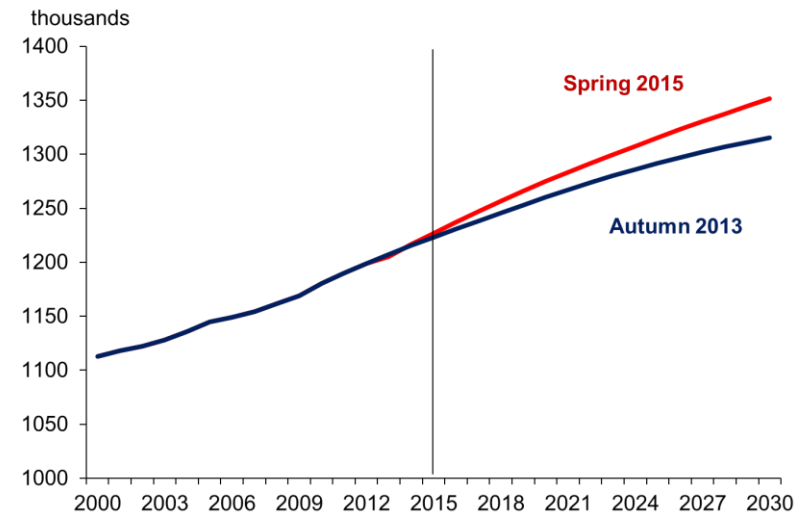
- Solent population in 2030

- Spring 2015 1,351,300
 - Autumn 2013 1,315,500
 - Difference 35,900

- Implications for housing, demand for public services and transport

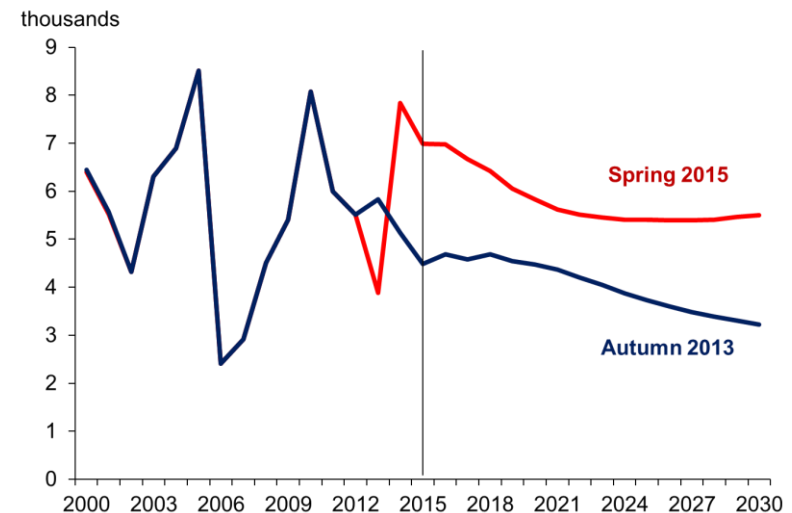
- Despite low unemployment, could additional jobs be filled by existing (non-employed) residents rather than migrants?

Solent population



Source : ONS / Oxford Economics

Solent net migration



Source : ONS / Oxford Economics

Implications of the revised forecast for the targets

- The Preferred Growth Scenario set some headline targets for 2020 (based on autumn 2013 baseline forecast)
- An additional 15,500 jobs above baseline & increasing employment rate from 78% to 80%
 - Spring 2015 baseline forecast implies the targeted level of employment and resident employment rate will be achieved by 2020, largely due to stronger than anticipated growth last year
 - Should we be more ambitious?
- GVA growth to rise to 3.5% pa
 - Spring 2015 baseline forecast is for GVA growth of 2.8% per year between 2014 to 2020, a modest reduction from 3% in the autumn 2013 forecast
 - GVA growth target remains challenging, because...
- An increase in productivity of £6,500 (including baseline growth)
 - Spring 2015 baseline forecast has a productivity improvement of £5,300 by 2020 at an annual rate of 2% per year. This would need to be boosted to c2.6%
- Boosting productivity is the key challenge

The productivity puzzle

- Why has productivity growth been so weak since 2008?
 - Collapse in investment (lack of finance / demand / business confidence)
 - Strong labour supply growth, low wages
 - Underreporting of GDP in the official statistics?
- A (at least partial) reversal of these trends help to support a recovery in productivity growth over the medium / long term
- How can we improve productivity – the million dollar question
 - Invest in the supply side of the economy – infrastructure, broadband, transport, skills
 - Evidence shows a strong positive relationship between skills and productivity
 - Innovation (districts) and R&D can have considerable direct impacts on firms, and indirect impacts through spill-overs
 - Sector growth matters
 - Though its probably not appropriate to apply 'one size fits all' measures to each economy - needs a tailored approach
- Will faster productivity growth lead to stronger GVA or weaker employment growth?