



# **Southampton Strategic Assessment**

## **Southampton Economic Assessment**

### **3. Productivity and growth**

*Last Updated September 2017*

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### 3. Productivity and growth

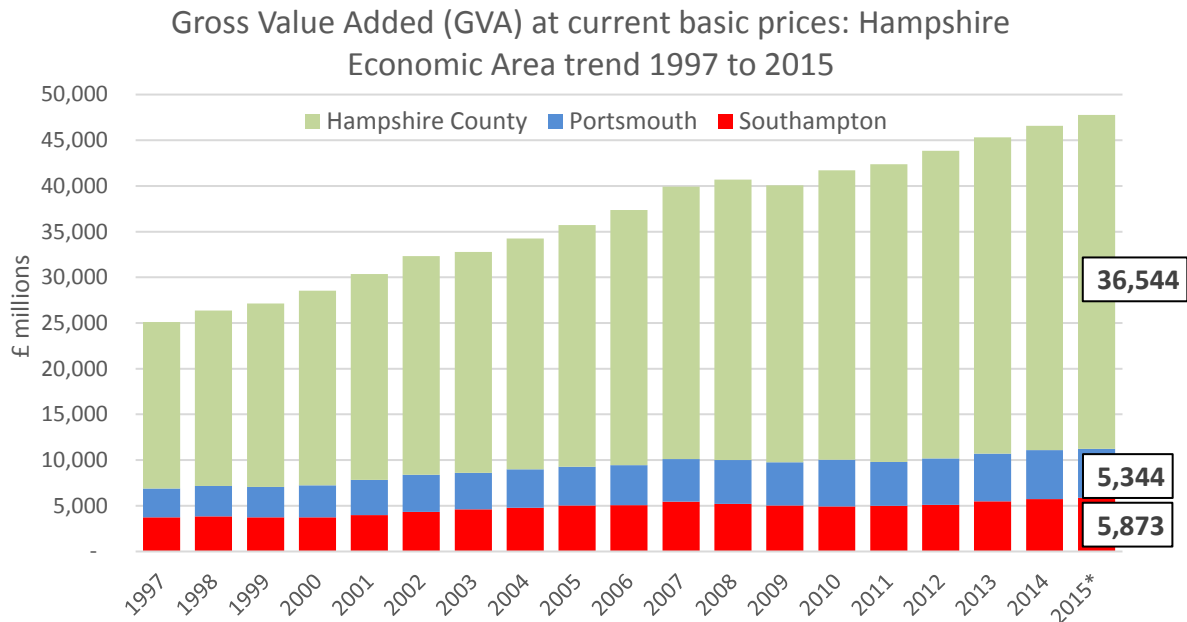
#### 3.1 Gross Value Added (GVA) in Southampton and the Hampshire Economic Area

Gross Value Added (GVA) is one of the key economic indicators. It measures the performance of each individual producer or industry and their input to the economy. There are two measures of GVA; the production approach and the income approach. This analysis focuses on the income approach which defines GVA as the income made by employees and businesses in a form of earnings and profits/surplus.

Data on GVA is published by the Office for National Statistics (ONS) at the end of each calendar year. It is available at various geographical levels and by various industry groups. Each time data is published, ONS also publishes revisions to past data; this means that values for a particular year may differ in different publications.

In 2015, the Hampshire Economic Area economy, which includes the unitary authorities of Southampton and Portsmouth, was worth approximately £48 billion and contributed 19.2% to the South East regional economy (see figure 3.11). Since 2014, it has grown by 2.5% which is lower than the 3.2% growth seen in the South East region and the 3% growth in England overall.

Figure 3.11:



Source: ONS. \* Data for 2015 is provisional

In 2015, the Southampton economy was worth £5.9 billion and contributed 12.3% to the Hampshire Economic Area economy (£48 billion) and 2.4% to the overall South East England economy (£249 billion). Figure 3.12 shows the trend in GVA at current basic prices in Southampton between 1997 and

2015, along with the year on year percentage change. Since 1997, the Southampton economy has grown from £3.7 billion to £5.9 billion, an annual growth rate of 3.2%; this is significantly lower than annual growth in the South East (5.5%) and England (5.6%) over the same period.

Figure 3.12:

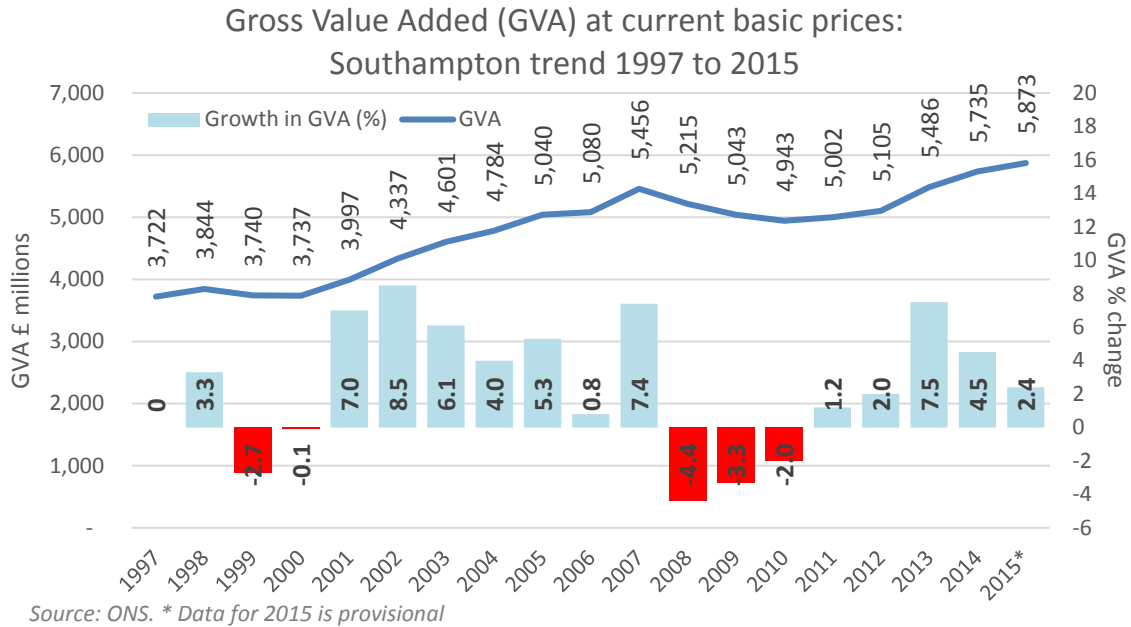


Figure 3.13: Annualised rates of change in GVA (Income Approach)

Region name	2008	2009	2010	2011	2012	2013	2014	2015*	1997-2015 cumulative change	1997-2015 annual rate of change	2007-2010 cumulative change	2007-2010 annual rate of change	2010-2015 cumulative change	2010-2015 annual rate of change
England	2.6	-1.9	2.6	2.6	3.5	3.8	5.2	3.0	100.6	5.6	3.3	1.1	19.4	3.9
South East	3.1	-2.5	3.5	2.1	4.6	3.9	4.5	3.2	98.1	5.5	4.0	1.3	19.5	3.9
Hants and Isle of Wight	2.2	-1.8	4.0	1.6	3.5	3.3	3.0	2.5	90.7	5.0	4.3	1.4	14.6	2.9
Hants Economic Area	1.9	-1.6	4.1	1.6	3.5	3.3	2.8	2.5	90.3	5.0	4.4	1.5	14.5	2.9
<b>Southampton</b>	<b>-4.4</b>	<b>-3.3</b>	<b>-2.0</b>	<b>1.2</b>	<b>2.0</b>	<b>7.5</b>	<b>4.5</b>	<b>2.4</b>	<b>57.8</b>	<b>3.2</b>	<b>-9.4</b>	<b>-3.1</b>	<b>18.8</b>	<b>3.8</b>
Portsmouth	2.9	-1.4	7.6	-5.5	5.7	2.8	2.9	-0.5	68.4	3.8	9.1	3.0	5.1	1.0
Isle of Wight	7.1	-5.8	1.6	1.9	2.5	2.6	6.3	1.9	98.6	5.5	2.5	0.8	16.1	3.2
Hampshire County	2.9	-1.3	4.6	2.8	3.4	2.8	2.6	3.0	100.8	5.6	6.2	2.1	15.4	3.1

\* Figures are provisional

Figure 3.12 and figure 3.13 illustrate how Southampton was particularly affected by the 2008 economic crisis and subsequent recession, with a year on year fall in GVA recorded in 2008, 2009 and 2010. Overall, GVA fell from £5.5 billion in 2007 to £4.9 billion in 2010; a fall of 9.4%. In comparison over the same period, the overall Hampshire Economic Area economy grew by 4.4% and national economy by 3.3%.

However, since 2010 the economy in Southampton has recovered dramatically, with GVA rising steadily from a low of £4.9 billion to £5.9 billion in 2015, an overall increase of 18.8%. In fact, since 2010, the Southampton economy has grown at an annual rate of 3.8%, which is higher than the overall Hampshire Economic Area (2.9%) and similar to the England and South East averages (3.9%).

### 3.2 Gross Value Added (GVA) per head

Gross Value Added (GVA) per head is a useful way of comparing regions of different sizes. However, it is not a measure of regional productivity, as the population estimates used to calculate it include the economically inactive population. It is also worth noting that GVA is calculated from the workplace population, whereas the denominator of GVA per head uses the resident population. Nonetheless, it is an important indicator for benchmarking economic growth.

Figure 3.21:

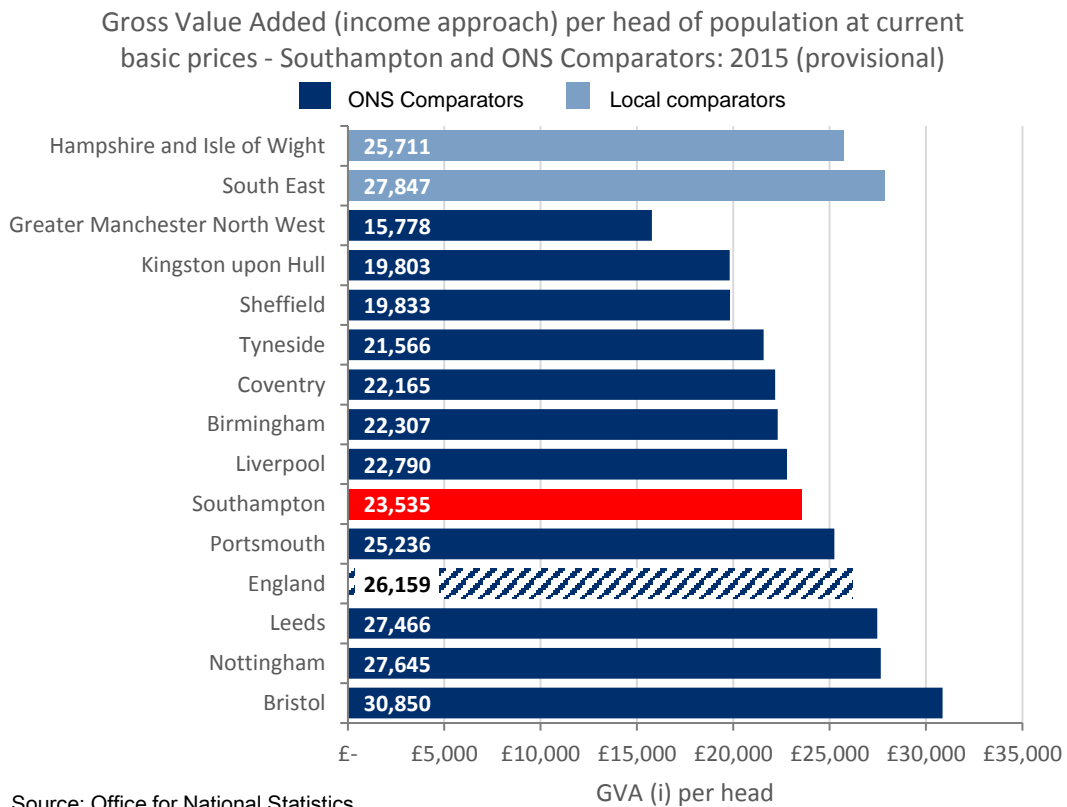


Figure 3.21 shows the GVA per head for Southampton and its ONS statistical neighbours for the latest period. GVA per head for a Southampton resident in 2015 was £23,535 compared to the national average of £26,159. This is also below the South East and Hampshire and Isle of Wight average. Amongst its comparator group, the city ranks 5<sup>th</sup> out of 12, with Bristol having the highest GVA per head at £30,850; some 31% higher than Southampton. The large number of students in the city may have an impact on these figures, as they make up a proportion of the economically inactive population; however, many other comparator areas also have a large student populations.

Figure 3.22:

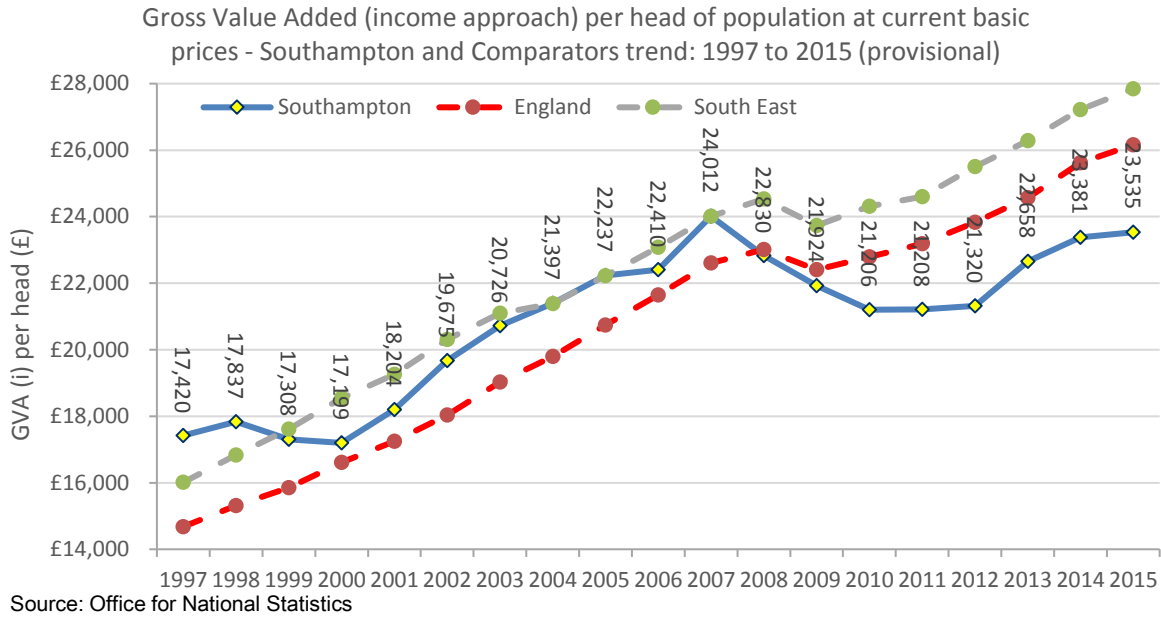


Figure 3.22 shows the trend in GVA per head for Southampton between 1997 and 2015 compared to the South East and England averages. This clearly illustrates that up until 2007, GVA per head in the city was consistently higher than England and comparable to the South East. However, the economic crisis of 2008 had a greater impact in Southampton lowering GVA per head well below both the South East and England average. Despite recovering from a low of £21,206 per head in 2010 to £23,535 per head in 2015, the gap persists and does not appear to be narrowing (see figure 3.23).

Figure 3.23:

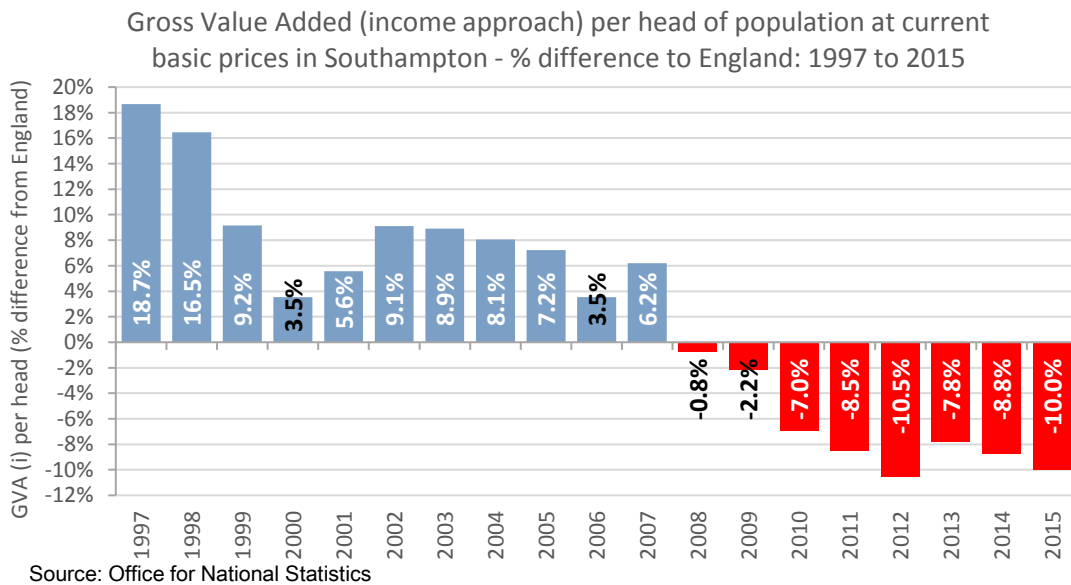


Figure 3.24 shows the annualised rates of change in GVA per head for Southampton and its ONS statistical neighbours. This further illustrates the impact of the economic crisis in Southampton, with

an overall reduction in GVA per head by 11.7% between 2007 and 2010. No other statistical neighbour experienced such a dramatic fall in GVA per head; the nearest was Coventry which experienced a 3.4% fall over the same period.

Figure 3.24: Annualised rates of change in GVA per head (Income Approach)

Region name	2008	2009	2010	2011	2012	2013	2014	2015*	1997-2015 cumulative change	1997-2015 annual rate of change	2007-2010 cumulative change	2007-2010 annual rate of change	2010-2015 cumulative change	2010-2015 annual rate of change
England	1.8	-2.6	1.7	1.7	2.8	3.1	4.3	2.1	78.2	4.3	0.8	0.3	14.8	3.0
South East	2.2	-3.3	2.4	1.2	3.7	3.1	3.5	2.3	73.9	4.1	1.3	0.4	14.5	2.9
Hants & IoW	1.5	-2.4	3.0	0.8	2.7	2.7	2.3	1.7	70.6	3.9	2.0	0.7	10.7	2.1
Southampton	-4.9	-4.0	-3.3	0.0	0.5	6.3	3.2	0.7	35.1	2.0	-11.7	-3.9	11.0	2.2
Birmingham	0.0	-2.9	1.0	1.8	0.5	3.4	3.3	4.2	65.2	3.6	-1.9	-0.6	13.8	2.8
Bristol	0.6	0.9	3.4	-3.9	1.9	4.2	7.2	0.9	65.5	3.6	5.0	1.7	10.4	2.1
Coventry	-2.9	-3.4	3.0	0.5	4.5	4.5	4.4	-1.2	46.5	2.6	-3.4	-1.1	13.4	2.7
Manchester NW	0.2	-4.9	2.0	-1.5	3.8	3.1	2.4	4.4	61.8	3.4	-2.7	-0.9	12.6	2.5
Kingston upon Hull	-2.2	4.6	-5.1	2.2	2.5	2.2	-0.6	2.0	77.0	4.3	-2.9	-1.0	8.7	1.7
Leeds	2.6	-2.9	-0.8	2.6	-0.7	3.1	2.1	3.5	84.1	4.7	-1.1	-0.4	11.0	2.2
Liverpool	3.6	8.6	-4.5	-4.9	-1.4	1.1	4.6	1.6	91.2	5.1	7.5	2.5	0.8	0.2
Nottingham	4.6	-0.2	1.5	0.4	-0.5	-1.5	6.0	2.1	51.2	2.8	6.0	2.0	6.4	1.3
Portsmouth	2.3	-2.9	5.6	-6.8	5.0	2.4	2.1	-1.7	50.6	2.8	4.9	1.6	0.6	0.1
Sheffield	-0.9	-0.5	-0.2	-0.1	2.4	0.6	1.0	1.3	67.9	3.8	-1.6	-0.5	5.3	1.1
Tyneside	1.9	-4.1	1.5	5.0	2.1	0.7	2.6	4.4	96.2	5.3	-0.7	-0.2	15.6	3.1

\* Figures are provisional

Figure 3.25:

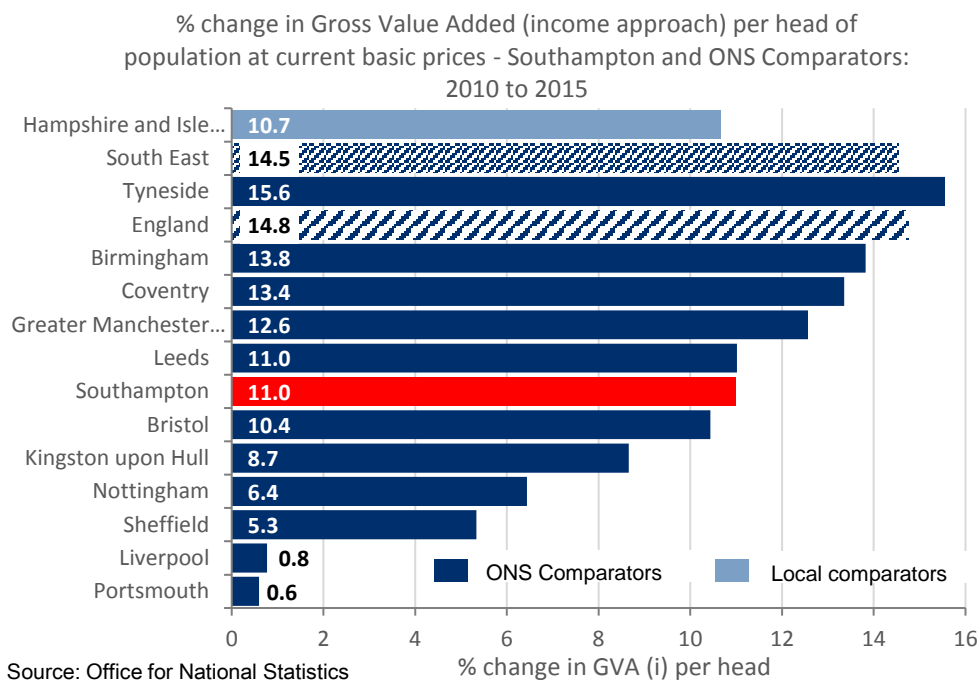
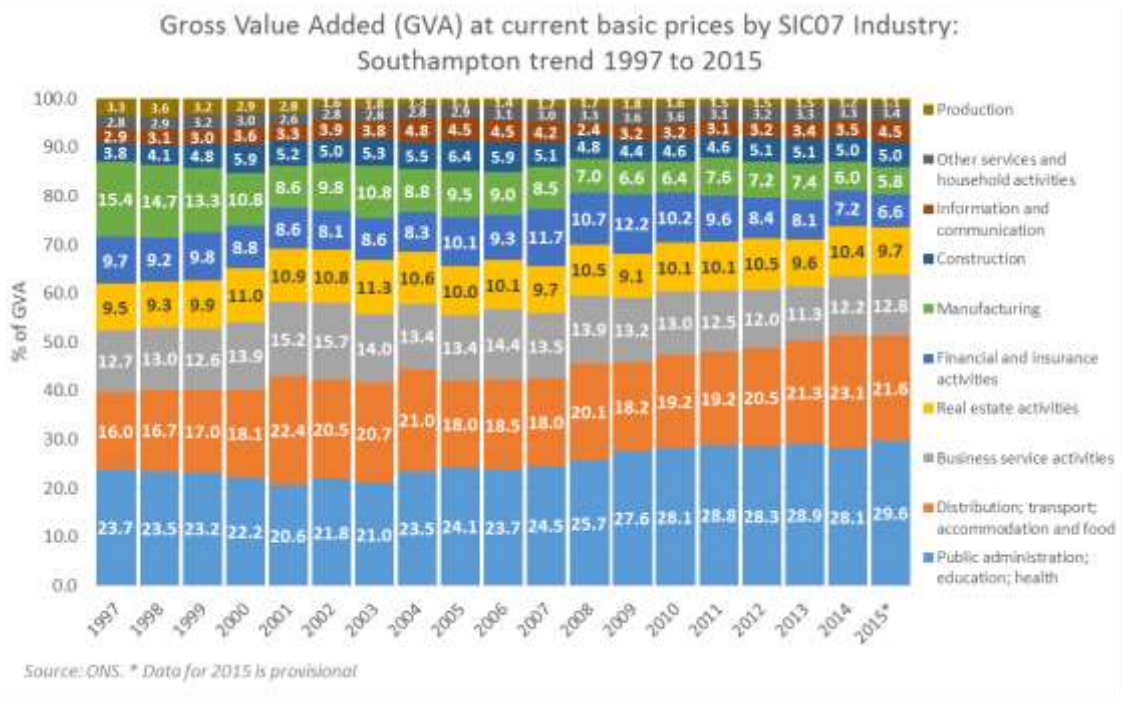


Figure 3.24 also demonstrates the recovery in Southampton between 2010 and 2015, with an 11% growth in GVA per head. This level of growth is similar to many comparator areas over the period, although still less than England (14.8%) and the South East (14.5%) which explains why the gap in GVA has not narrowed (see figure 3.25). Nevertheless, Southampton has had a greater level of growth over this period than Portsmouth (0.6%) and is similar to the Hampshire & Isle of Wight average (10.7%).

### 3.3 Gross Value Added (GVA) by broad industrial group

Figure 3.31 illustrates the contribution that each broad sector makes to total GVA(i) at current basic prices in Southampton over time. The *public administration, education and health* sector has consistently been the highest contributor to GVA in Southampton and has steadily grown from 23.7% in 1997 to 29.6% in 2015. Similarly the *distribution, transport, accommodation and food* sector has consistently been the second largest contributor, with its share increasing from 16% in 1997 to 21.6% in 2015. Together these two sectors account for over half of Southampton’s economy. The sectors that have most notably declined in terms of their relative contribution to the city’s economy are *manufacturing*, which has fallen from 15.4% in 1997 (3<sup>rd</sup> largest sector) to 5.8% in 2015 (6<sup>th</sup> largest sector) and *financial and insurance activities*. The latter was particularly affected by the financial crisis in 2008, reducing from an overall contribution of 11.7% in 2007 to 6.6% in 2015. The loss of Vosper Thornycroft in 2003, Ford in 2013 and HSBC in 2015 will have contributed to the decline in GVA in both the *manufacturing* and the *financial* sectors in Southampton.

Figure 3.31:



All sectors in Southampton, with the exception of *public administration, education and health* were impacted by the 2008 financial crisis. The largest impact was seen in the *manufacturing* sector which fell by £149 million between 2007 and 2010, followed by *financial and insurance activities* which fell

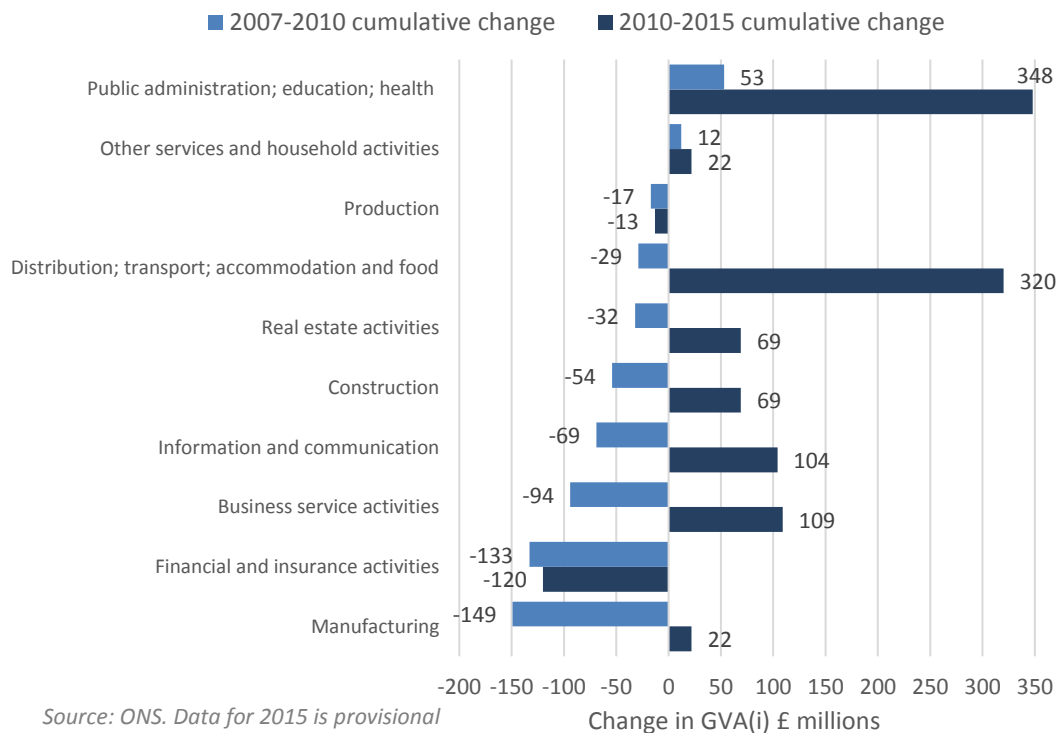


by £133 million. However, in the case of manufacturing, the sector was already in decline to some extent prior to the crisis, having fallen from a high of £573 million in 1997 to £466 million in 2007.

Between 2010 and 2015 the Southampton economy has witnessed a recovery. The sectors which have seen the largest growth in this period are *public administration, education and health* (£348 million), *distribution, transport, accommodation and food* (£320 million), *business services activities* (£109 million) and *information and communication* (£104 million). In contrast, the *financial and insurance activities* sector has continued to decline (-£120 million). Figure 3.32 illustrates the actual change in GVA(i) by sector for both the recession and recovery periods.

Figure 3.32:

Change in Gross Value Added (GVA) at current basic prices by SIC07 Industry: Southampton 2007-2010 and 2010-2015



More detailed data on the yearly changes to GVA(i) by sector is shown in figure 3.33. One of the things highlighted in this table is the growth in the *information and communication* sector in Southampton. This sector grew by almost two thirds (65.8%) between 2010 and 2015; an average increase of 13.2% per year. In percentage terms, this sector experienced the largest growth in Southampton since the recession and grew by 31.7% between 2014 and 2015. Nevertheless, *information and communication* still only accounts for 4.5% of the overall economy in the city.

The *Public administration, education and health* sector is still the largest contributor to GVA(i) in the city. The continued reliance on growth from this chiefly 'public sector' industry may be a concern for Southampton, especially if this period of austerity continues.

Figure 3.33: Annualised rates of change in GVA (Income Approach) by SIC07 Industry

SIC07 Industry	2009	2010	2011	2012	2013	2014	2015*	1997-2015 cumulative change	1997-2015 annual rate of change	2007-2010 cumulative change	2007-2010 annual rate of change	2010-2015 cumulative change	2010-2015 annual rate of change
Production	4.6	-14.3	-5.1	4.1	3.9	-12.5	-7.1	-47.2	-2.6	-17.9	-6.0	-16.7	-3.3
Manufacturing	-8.2	-5.4	20.2	-3.1	10.3	-16.0	-0.9	-40.8	-2.3	-32.0	-10.7	6.9	1.4
Construction	-12.3	1.8	1.8	13.1	8.9	1.1	3.2	105.6	5.9	-19.4	-6.5	30.7	6.1
Distribution; transport; accommodation and food	-12.0	3.4	0.8	9.3	11.3	13.8	-4.2	112.9	6.3	-3.0	-1.0	33.6	6.7
Information and communication	25.2	-0.6	-2.5	7.1	14.5	5.3	31.7	142.6	7.9	-30.4	-10.1	65.8	13.2
Financial and insurance activities	10.8	-18.0	-5.1	-10.2	3.3	-6.5	-7.2	6.6	0.4	-20.8	-6.9	-23.8	-4.8
Real estate activities	-15.6	8.0	1.4	6.3	-1.5	12.5	-4.7	59.7	3.3	-6.0	-2.0	13.9	2.8
Business service activities	-8.0	-3.6	-2.8	-1.8	0.8	13.4	7.1	59.1	3.3	-12.8	-4.3	17.0	3.4
Public administration; education; health	4.0	-0.1	3.8	0.1	9.9	1.4	7.9	96.8	5.4	4.0	1.3	25.0	5.0
Other services and household activities	5.2	-2.7	-13.5	5.2	12.3	4.4	5.3	88.7	4.9	7.2	2.4	12.4	2.5
All industries	-3.3	-2.0	1.2	2.1	7.5	4.5	2.4	57.8	3.2	-9.4	-3.1	18.8	3.8

\* Figures are provisional.

The agriculture, forestry and fishing sector is not shown due to small numbers

### 3.4 Impact of Brexit on productivity and growth

The impact of the Brexit vote to leave the European Union on economic growth is highly uncertain at both national and local level. However, The *Good Growth for Cities 2016* report begins to assess in directional terms, what the likely impact of the vote might be. Jobs and income are most likely to be affected negatively as a result of a slowdown in economic growth over the coming few years, largely driven by increased political and economic uncertainty. By contrast, we might expect to see an improvement in housing affordability as house price growth slows due to reduced international investor and consumer confidence. Although there are many unknowns, the evidence to date suggests that the net impact will be more of a slowdown rather than a reversal of recent growth, although any projections are highly uncertain at this stage.<sup>1</sup>

### 3.5 Summary of key points

- In 2015, the Southampton economy was worth £5.9 billion and contributed 12.3% to the Hampshire Economic Area economy (£48 billion) and 2.4% to the overall South East England economy (£249 billion).

<sup>1</sup> Demos-PWC (2016) *Good Growth for Cities 2016* [Online]. Available from: <http://www.pwc.co.uk/industries/government-public-sector/good-growth.html>

- Southampton was particularly affected by the 2008 economic crisis and subsequent recession, with GVA(i) falling by 9.4% between 2007 and 2010. In comparison over the same period, the overall Hampshire Economic Area economy grew by 4.4% and national economy by 3.3%.
- However, between 2010 and 2015, the economy in Southampton has recovered dramatically, with GVA(i) rising by 18.8%; an annual growth rate of 3.8%. This is higher than the overall Hampshire Economic Area (2.9%) and similar to the England and South East averages (3.9%).
- Despite this recent growth, GVA(i) per head for a Southampton resident in 2015 was £23,535 which was below the national average of £26,159, and lower than Portsmouth (£25,236) and Hampshire and Isle of Wight (£25,711). This gap is chiefly due to the economic crisis having a greater impact in Southampton compared to other areas. Despite the economic recovery since 2010, the gap between England and Southampton persists (-10% in 2015) and may even be widening, suggesting other areas may be recovering faster than Southampton.
- All sectors in Southampton, with the exception of *public administration, education and health* were impacted by the recession. The *manufacturing* and the *financial and insurance activities* sectors were most affected. Whilst the former has been in decline since 1997, the latter was particularly impacted by the 2008 financial crisis.
- The sectors which have seen the largest growth since 2010 are *public administration, education and health* (£348 million), *distribution, transport, accommodation and food* (£320 million), *business services activities* (£109 million) and *information and communications* (£104 million). The latter has grown by almost two thirds (65.8%) between 2010 and 2015; an average increase of 13.2% per year. In contrast, the financial and insurance activities sector has continued to decline (-£120 million).
- The *public administration, education and health* sector and the *distribution, transport, accommodation and food* sector account for over half of Southampton's economy. The former has consistently been the highest contributor to GVA(i) in Southampton and its share has steadily grown from 23.7% in 1997 to 29.6% in 2015. The continued reliance on growth from this chiefly 'public sector' industry may be a concern for Southampton, especially if this period of austerity continues.