Southampton
Strategic Assessment

Economic Assessment Refresh 2019
Summary of Findings

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1. Southampton Economic Assessment background

In the wake of the EU referendum result and its potential implications for the economy, it’s no surprise that the government is placing renewed focus on driving growth. The government has emphasised that no cities or regions should be left behind when it comes to local growth. This together with a potential move towards 100% business rate retention for local authorities, reinforces the need for a more place-based industrial strategy. This requires leaders from the public and private sectors across a place to develop a clear vision for growth, based on good local data and intelligence, to foster sustainable, long term prosperity. Growth is also critical in order to improve outcomes for local people; ‘Southampton has strong and sustainable economic growth’ is one of the four key outcomes which make up the vision in the 2016-2020 Southampton City Council Strategy. In addition, ‘Economic growth with social responsibility’ is one of the three key priorities in the 2015-2025 Southampton City Strategy, a partnership strategy which sets out the vision for the whole city.

There have been a number of reports on the local economy in recent times, but most focus on the Hampshire Economic Area or the Southampton Travel to Work Area (TTWA). For example, the PwC and Demos Good Growth for Cities 2018 report ranks Southampton as the third highest ranked city for good growth.

Although the findings of these reports provide an indication of the direction of travel, they are not specific to Southampton. There therefore continues to be a need for specific intelligence on the
Southampton economy to compliment wider regional analyses and to help drive strategic decision making on economic development. The Southampton Economic Assessment was originally conducted in 2017 to provide a baseline as to the strength of the Southampton economy, based on the administrative boundary of the local authority. It considered productivity and growth, business and enterprise, the job market, employment, skills and earnings. The key analyses from this original report are refreshed each year as new data becomes available. This briefing summarises some of the key findings from the 2019 refresh. It is recommended that this be read alongside the original 2017 report for a full understanding of Southampton’s economy. All reports, summary slide sets and datasets relating to the economic assessment can be found on the Southampton Data Observatory.

2. Productivity and growth

Productivity and growth is typically measured using Gross Value Added (GVA) which 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.

- Overall economic growth in Southampton appears to be healthy. The Southampton economy was estimated to be worth £6.6 billion in 2017, an increase of 6.8% since 2016 which is higher than the England (3.1%) and South East (2.0%) averages.
- Nonetheless, GVA per head of population in Southampton (£25,980) is still lower than the national average (£27,949), although the gap narrowed in 2017. GVA(i) per head is a useful way of comparing regions of different sizes and is an important indicator for benchmarking economic growth.
- Between 2016 and 2017, all sectors grew in Southampton with the exception of Information and communication (-£25 million). The largest growth was in the Public administration, education and health sector (£178 million), despite a reduction of £65 million in 2016 and continued public sector cuts. The financial and insurance activities sector also appears to be recovering (£68 million growth) compared to a £24 million reduction in 2016.
- The Public administration, education and health sector (28.7%) and the distribution, transport, accommodation and food sector (21.2%) account for almost half of Southampton’s economy.

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1 Based on GVA(i) measure
3. Business and Enterprise in Southampton

Information on the number of businesses in Southampton is available from the UK Business: Activity, Size and Location annual data release from the Office of National Statistics (ONS) and from the annual ONS Business Demography dataset. Both datasets are produced from an extract taken from the Inter Departmental Business Register (IDBR) which represents the businesses registered with HM Revenue and Customs (HMRC) for VAT and/or Pay As You Earn (PAYE). The former examines the business population at the end of the financial year (snapshot), whilst the latter considers all businesses that were ‘active’ at any point during the year. The ONS UK Business data tends to be used to examine trends in the number of businesses in the city, whilst the ONS Business Demography data is used to examine new business start-ups and business survival rates in line with ONS guidance.

- In 2018, there were 6,745 businesses in Southampton. Since 2011, Southampton has had a net increase of 1,810 businesses which equates to a 37% increase. This is higher than the England (30%) and South East (23%) averages. This growth was particularly dominated by micro enterprises (0-9 employees), increasing by 35% between 2010 and 2018 (23% in SE).
- Despite these increases, business density (per head of population) remains much lower than the England average (389 per 10,000 compared to 663). This may be reflective of the local industry profile (large public sector employers) and a large student population. However, it may also be reflective of the lack of suitable premises for new businesses in the city as floorspace has declined.
- In addition, the growth in number of businesses in the city has started to slow (from 9.7% in 2016 to 0.5% in 2018). This is reflective of the national trend and of the wider UK economy’s recent performance, with slowing growth in gross domestic product (GDP), which increased by 1.5% in the 2017 to 2018 fiscal year. This stagnation comes under the backdrop of heightened uncertainty about the future of the UK’s relationship with the EU. There is some evidence that businesses may have stayed cautious, with Confederation of British Industry (CBI), Bank of England and The Institute of Chartered Accountants in England and Wales (ICAEW) all reporting falling business optimism as Brexit draws closer.
- This also coincides with the Bank of England increasing the bank rate by 0.25 percentage points from 0.25% to 0.5% in November 2017, and by another 0.25 percentage points to 0.75% in August 2018. While an increase in the bank rate can deter the creation of smaller businesses because of an increase in cost of borrowing, the bank rate remains historically low and a small increase in the cost of borrowing may not heavily change the decision of businesses to invest.
- The fall is due to both an increase in business deaths and a fall in business start-ups. This is reflective of the national trend, although for the first time since 2012 the number of deaths was greater than the number of births, suggesting negative growth. This is in contrast to the ONS UK Business data which suggests a small growth; what we can say is that growth in the number of businesses has certainly slowed dramatically.
- Business survival over the first two years appears to be an issue in Southampton. Having had a relatively good business survival rate over the first and second year of trading, Southampton has seen a dramatic reduction in 2017. This is most prominent in the two year survival figures which have fallen from 77% in 2016 to 65% in 2017, a rate which is the lowest amongst comparator areas. Survival over 3 and 5 years is more stable, perhaps suggesting that the
challenges brought about by Brexit (depreciation of sterling and higher raw material and import prices) may have had the greatest impact on businesses under two years old in Southampton.

- More work is required to better understand if particular industrial groups have been more or less affected in the city.

4. Employee Jobs in Southampton

The number of employee jobs is one of the main indicators of the state of the economy. The changes in employee numbers may indicate whether the economy is growing or in decline, what the local strengths are and how significant the local changes are in comparison to other areas or against the regional or national average.

The ONS Business Register and Employment Survey (BRES) is the official source of employee and employment estimates in the UK. The survey collects employment information from a sample of some 80,000 businesses across the whole of the UK economy, allowing the analysis of workplace-based employee and employment estimates by detailed geography and industry, full-time or part-time workers and by public or private sector businesses. However, it should be noted that BRES does not cover the very small businesses neither registered for VAT nor Pay-As-You-Earn (PAYE), which make up a small part of the economy.

- In 2017, there were just over 110,000 workers employed in Southampton. Between 2011 and 2015 there was a net increase of approximately 11,230 jobs in Southampton which, in part, is reflective of the increased number of businesses in the city. Many of these jobs were part-time and potentially less stable temporary employment.
- However, between 2015 and 2017 there was a net loss of 5,090 jobs, a reduction of 4.4%. In contrast, the number of employee jobs across England grew by 3.1%.
- The public sector was most affected (7.5% reduction) with continued austerity and funding cuts. However, the private sector also reduced by 3.6% over the same period.
- The majority of job losses were part-time (2,669), a reduction of 8%, potentially demonstrating the unstable nature of some of the part-time job creation post-recession.
- Despite this the public sector continues to be a major employer in the city, with 21% of all jobs. Health, retail and education sectors are the largest employers in Southampton, with the University Hospital Southampton (11,500) and the University of Southampton (5,000) being the largest single employers.
- The sectors with the greatest net job losses between 2015 and 2017 are...
  - Information and communication (-2,500 jobs; reflective of the GVA figures). Closer inspection reveals this relates to jobs in the publication of newspapers sector, all in Redbridge ward. This may relate to changes at Newsquest who have a base in the city, but who employ staff across the region. It is therefore highly unlikely these job losses can wholly be attributed to Southampton.
  - Business administration and support services (-2,000 jobs). Closer inspection reveals this relates to jobs in the Temporary employment agency activities sector (-1,500 –
majority in Bargate) and the General cleaning of buildings sector (-1,550 – majority in Bargate).

- Transportation and storage (-2,000). The majority of these were in Bargate ward in the Other transportation support activities sector.
- Motor trade, wholesale and retail (-1,000). Closer inspection reveals these were all in retail. However, these were not in the city centre (Bargate), but rather spread throughout the city.
- Further work is needed to fully understand these changes and whether all of the job losses attributed to Southampton actually relate to jobs physically located in the city or whether this is an artefact of where head/regional offices are located (as in the case of Newsquest).

- In contrast, the manufacturing, construction and arts, entertainment and recreation industries have grown between 2015 and 2017, although are still under represented compared to nationally. The growth in the latter is due to job growth in Bevois, most likely from Southampton football Club. In addition, financial and insurance industries appear to have recovered, having previously been in decline in the city.
- Unsurprisingly, Southampton continues to be a key employment centre in Hampshire, with a job density of 22.1 jobs per hectare, although this is below Portsmouth (26 jobs per hectare). In terms of the number of jobs per head of population, Southampton continues to be below the national average and the lowest amongst comparator areas at 0.64 jobs per working age adult.

5. Labour Market

As well as the considering the number and makeup of businesses and jobs in Southampton, it is important to understand in detail the character of Southampton’s resident working age population; not least because this is materially important with regard to the city’s wider economic prospects.

- Economic activity and employment rates continue to increase in Southampton. In 2017/18, three quarters (78.3%) of the working age population in Southampton were estimated to be economically active, which is similar to the England average (78.6%) but lower than the South East average (81.2%).
- In contrast, unemployment continues to decline. In 2017/18, unemployment was estimated to be 4.6% in Southampton, a reduction from 5.1% in 2016/17 and similar to the national average (4.3%).
- Claimant Count data suggests that 2.9% are claiming out of work benefits in Southampton compared to 2.6% nationally. However, this should be treated with some caution due to the unknown impact of Universal Credit. Unsurprisingly, the rates are significantly higher in wards and neighbourhoods in the city with higher levels of deprivation.
6. Skills and Qualifications

It is also important to consider skill levels of both the residents and workforce and whether they meet the needs of employers in the city. The Annual Population Survey (APS) records the qualifications of working age residents classified into a number of NVQ and equivalent levels.

- The proportion of the population qualified to NVQ level 4 (degree level) or above is increasing, but continues to be lower than the national average (41% compared to 43.5%). Given that the city has two universities, and a ready supply of graduates this is a little surprising and raises questions on graduate retention which may need further investigation.
- More positively, at the other end of the skills spectrum, 13.2% of Southampton’s economically active population have no or low qualifications (NVQ Level 1 or below), which is better than the England average (14.6%). Similar to the national trend, the proportion with no qualifications in Southampton has fallen over time from 10% in 2004 to 3.7% in 2018 and is now lower than the national average (4.9%).
- In terms of workplace skills, employers in Southampton are reporting proportionally fewer skills-shortage vacancies than the national average. In addition, there appear to be few problems with skills in the existing workforce, with employers reporting only 2% of staff as being not fully proficient compared to 4% nationally. There are also fewer difficulties retaining staff – only 2% of employers reported problems, compared to 13% nationally.
- Around 90% of the current labour force may be active in the labour market a decade from now. Therefore, initial education alone is not enough to remain competitive. The workplace is a vital location to develop these skills and it is therefore vital that businesses invest significant resources in training. Again, this is an area where Southampton performs well, with 87% of businesses reporting training staff in the last 12 months, compared to 67% nationally. As a proportion of all staff it is a little lower, but this may be due to better staff retention rates.
- Data on workplace skills has been taken from the Department for Education Employment and Skills Survey (2017), which examined the experiences of over 71,500 employers in the UK. As only a relatively small sample of businesses will have been taken from Southampton, it should be noted that the results may not reflect the experiences of all employers in the city.

7. Earnings and Economic Flows

In a period of sustained austerity since 2010 in response to the economic downturn and deficit reduction, wages for many were cut or frozen. Therefore, more recent and robust growth in the economy has raised the issue of earnings and wage growth.

The Annual Survey of Hours and Earnings (ASHE) available from the Office for National Statistics (ONS) evaluates earning levels nationally and locally. This provides a picture of the median gross incomes of residents living in an area and of those people working in an area. The information on wages is based on full time employees working more than 30 paid hours a week, or 25 or more for teaching professions. The data does not include the self-employed or those that work in the armed forces. It is based on a 1% sample of employee jobs from HM Revenue and Customs PAYE records.
• There continues to be an inequality gap in terms of pay between those working in the city and those resident in the city. In 2018, the median gross weekly pay for workers was £572, compared to £529 for residents; a difference of £43 – the second largest gap amongst comparators. Relatively speaking, workplace pay is similar to the national average, whilst resident pay is lower than average.

• Both resident and workplace pay has generally increased since the recession. However, adjusted for inflation, resident (~0.9%) and workplace (~3.1%) earnings both fell in 2018 and pay in ‘real’ terms for both groups remains below the 2008 peak.

• Based on 2011 Census data, almost 42,000 commute into the city for work and a similar number commute out. There is a clear relationship with Eastleigh, with a large economic flow in both directions (12k). Significant numbers also commute into the city from the New Forest, Test Valley and Winchester.

• Given the difference between resident and workplace earnings, it is possible that some lower skilled residents are being displaced into lower paid employment outside of the city by skilled workers commuting into the city. Data from the ONS Annual Population Survey shows a net in-commute for professional (+7,400) and associate professional and technical (+3,300) occupations, whilst elementary (-500) and process, plant and machine operatives (-1,200) occupations show a net out-commute. Higher levels of income for workers is not directly reflected in the economic wellbeing of residents, which amongst other things is likely to result in poorer outcomes and higher demand for public services including health and social care.