

# South East employability and economic context

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# Outline

- Current economic performance
- Recent trends in GVA, business and employment growth
- Forecasts – GVA and employment
- Skills and employment – supply and demand

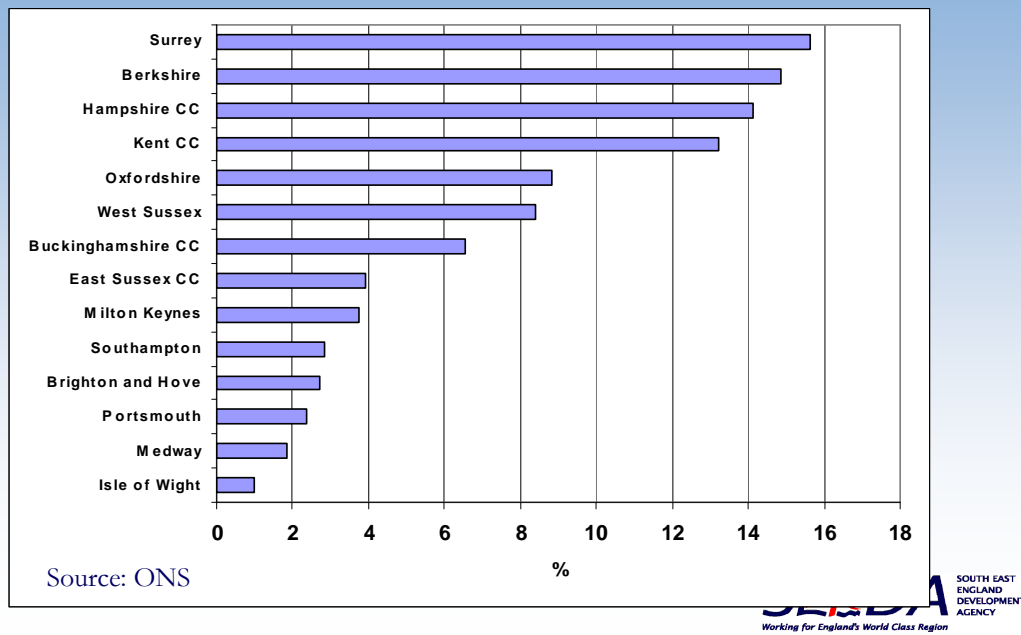
# South East local authorities



Note that in this presentation, data mostly reported for counties and unitaries separately (e.g. Brighton and Hove separate from East Sussex CC).

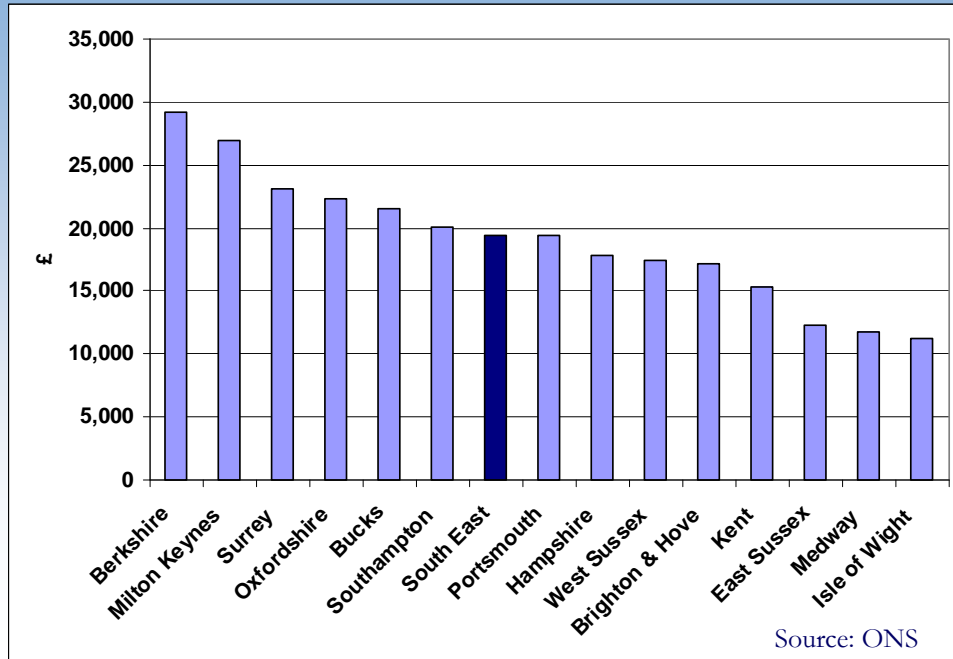
# Current economic performance and industrial structure

## Share of regional Gross Value Added (GVA), 2005



- Note counties and unitaries reported separately. Normally Hants = biggest economy if include Portsmouth & Southampton
- Surrey's economy worth most of any sub-region in SE in cash terms (£24.9 billion) in 2005 – nearly 16% of regional GVA.
- Kent and West Sussex also relatively large economies (£24 billion and £13.3 billion respectively).
- Smallest economies are East Sussex, Brighton & Hove and Medway (each < 4% of regional GVA).
- GVA = measure of output used at regional level. Internationally recognised way of assessing contribution of a business, industry or region to the economy, by taking sum of its outputs less sum of intermediate purchases (eg. cost of raw materials or fuel).
- GVA = measure of output at basic prices, whereas GDP = measure of output at market prices.  $GDP = GVA + \text{taxes} - \text{subsidies}$ . Not possible to measure taxation and subsidies at regional level, which is why GVA used.

## GVA per head, 2005



- More useful for comparison = GVA per head (i.e. output generated per head of population).
- Again, Berks is a strong performer, with highest GVA per head of any county / unitary. MKOB and Surrey also have GVA per head above SE average (above £20,000 per head).
- IOW, Medway and East Sussex have lowest GVA per head – only c. £11,000-12,000.

## Industrial mix (1): Share of GVA by sector (2007)

- Service sector accounts for greatest share of GVA in all sub-regions.
- Financial and business services is largest sector economically, except in Isle of Wight, Kent and Medway where public services make a greater contribution.
- Manufacturing and engineering accounts for less than 10% of GVA in all sub-regions except West Sussex, Kent and Medway and Portsmouth.



One way of measuring importance of different sectors = to look at their contribution to GVA.

Figures from Experian for 2007:

- Service sector = dominant contributor to the economy, but ranges from 67% of total GVA in Isle of Wight to 91% in B&H.
- In most sub-regions, largest sector in economic terms = financial and business services (esp. in B&H – 45% and Surrey – 38%). But in IOW only accounts for 14% of GVA and in Kent 21%. Public services makes larger contribution to the economy in these areas (26% and 22%).
- Manufacturing and engineering are relatively small sectors in economic terms – together accounting for <10% of total GVA in all sub-regions except West Sussex, Kent and Medway and Portsmouth (c. 13%). Manufacturing forms smallest part of economy in B&H (just 5% of GVA).
- Construction contributes a larger proportion of GVA in Kent, E. Sussex, Medway and IOW.
- Smallest sector in all sub-regions = agriculture, forestry and fishing (generally contributes little more than 1% of total GVA).

## Industrial mix (2): Business and employee numbers by sector (2006)

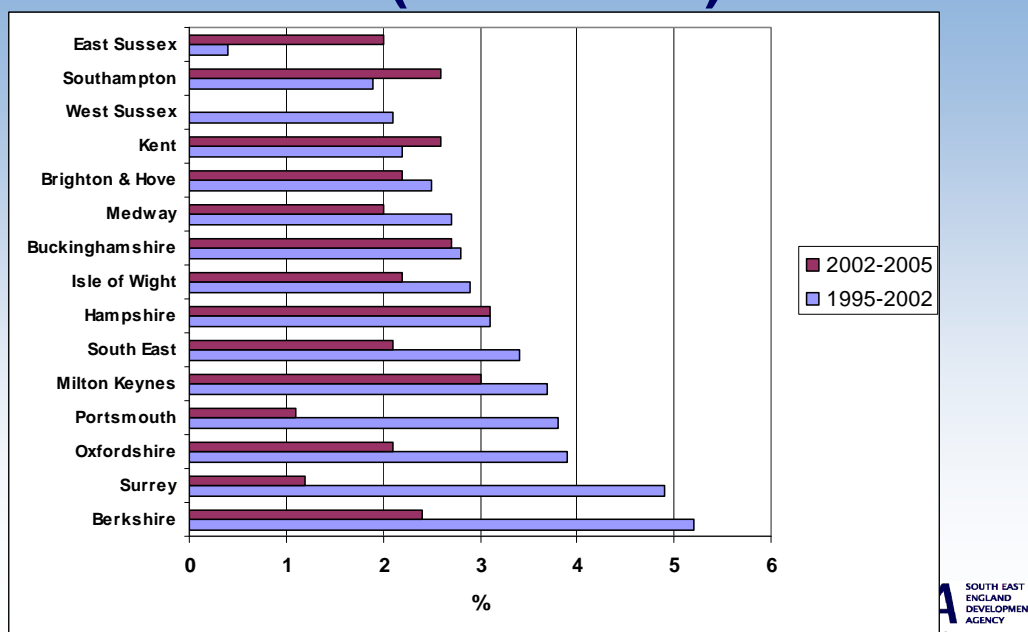
- Vast majority of businesses and employment are in service sectors – largest being Business and financial services and Distribution, hotels and restaurants.
- Construction firms account for just 7% of total business stock in Brighton & Hove, up to 16% in Medway.
- Manufacturing represents a smaller share of business stock and employment than the SE average in Brighton & Hove, Surrey, Berkshire and Southampton.



- At the most basic level, GVA in a sector(s) is a reflection of total employment in that sector(s) and productivity of workers.
  - With that in mind – can see similar sectoral patterns in employee numbers (and business numbers) to those evident from GVA data.
  - In line with GVA figures by sector, vast majority of businesses and employment in SE are in services. Largest sector = business and financial services (notably in Berks and Surrey – more than 40% of businesses and 30% of employees – well above SE average). Distribution, hotels and restaurants also a large sector – c. 25% of businesses and employees (except IOW – closer to one third, due to being tourist destination).
  - % of employment accounted for by public services is larger than the sector's share of business stock (due to public sector having larger organisations generally.)
  - Construction – smaller proportion of total employment than of total businesses (because tendency for construction firms to be smaller). Construction firms range from just 7% of total business stock in B&H to 16% in Medway.
  - Manufacturing represents smaller share of total business stock and employment than SE average in B&H, Surrey, Berks and Southampton. all sub-regions except B&H and Surrey (though <7% of businesses and <10% of total employment).
- Source: ABI

# Recent trends in GVA, business and employment growth

## Growth in GVA per head, 1995-2005 (real terms)



- Chart shows average annual % change in GVA per head over 10 yrs 1995-2005. Note – figures adjusted for effects of inflation. Official data tends to report sub-regional GVA figures which don't account for effect of inflation and therefore tend to appear higher. Inflation adjusted figures preferable when looking at change over time.

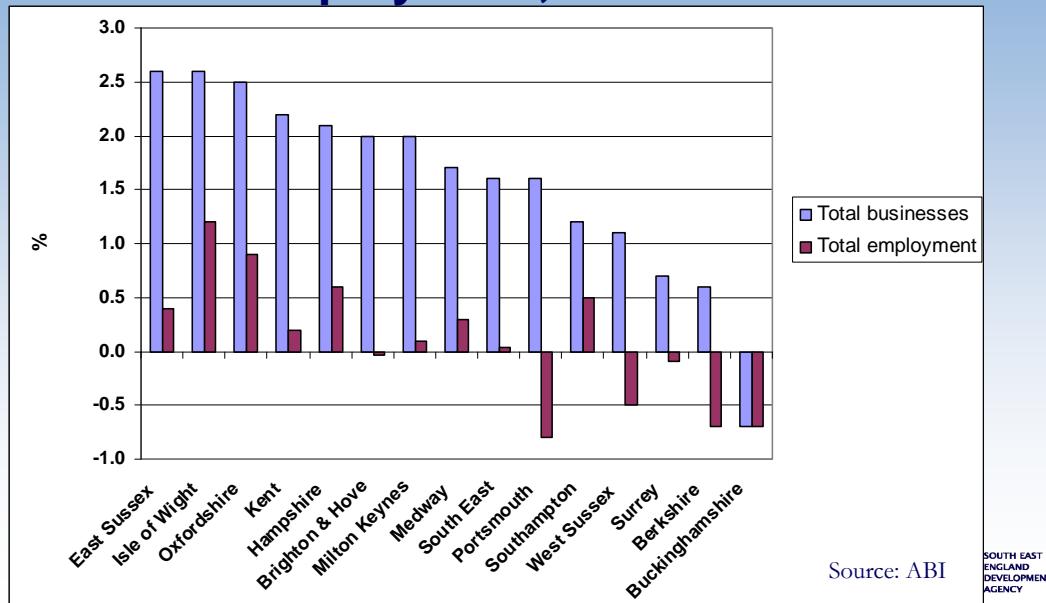
- Note also – figures calculated on a workplace basis (i.e. individuals' output allocated to where they work not where they live) so figures are influenced by commuting patterns (areas with large nos of out-commuters tend to have lower rates of workplace based GVA per head).

- In SE as whole and in most sub-regions, GVA growth slowed down in latter period (2002-05). Most dramatic slowdowns in **Surrey** - growth slowed from average 4.9% pa 1995-2002 (significantly faster than all other sub-regions) to just 1.2% pa 2002-05 (one of smallest growth rates in this period). Also in **West Sussex** – after growth of > 2% pa 1995-2002, almost zero growth 2002-05 (0.01% pa). Also saw significantly slower growth in Berks, Portsmouth and Oxon.

- This slowdown is likely to be cyclical feature of the economy i.e. SE is an open economy which was affected by the IT.com bust, global slowdown and a slowdown in London in the early years.

- Only sub-regions showing faster growth in GVA 2002-05 compared to 95-02: Southampton, Kent and East Sussex (E. Sussex had v.slow growth of just 0.4% pa 1995-02, but recovered to 2% pa 2002-05).

## Average annual growth rate in total business stock and employees in employment, 2001-06



- As mentioned earlier, key factors contributing to changes in GVA per head include change in number of businesses and changing employment levels. Looking at how these measures vary by sector enables us to ‘unpick’ the reasons for changing rates of growth in GVA per head.

- In some ways, results shown here mirror those in previous chart on changing growth rates for GVA per head: some of smallest growth in numbers of businesses and employment = W. Sussex and Surrey (also showed slowest growth in GVA per head in this period). In fact employment actually declined in W. Sussex (by -0.5%) and in Surrey (-0.1%) – helps explain slow growth in GVA per head in period 2002-05. Employment also declined in Portsmouth and Berks. Therefore this explains slower GVA growth in these areas in period 2002-05.

- Exception = **Bucks** - saw decline in both no. of businesses and employment, yet saw strong GVA growth across period 1995-2005. Could be partly related to inconsistencies with ABI data.

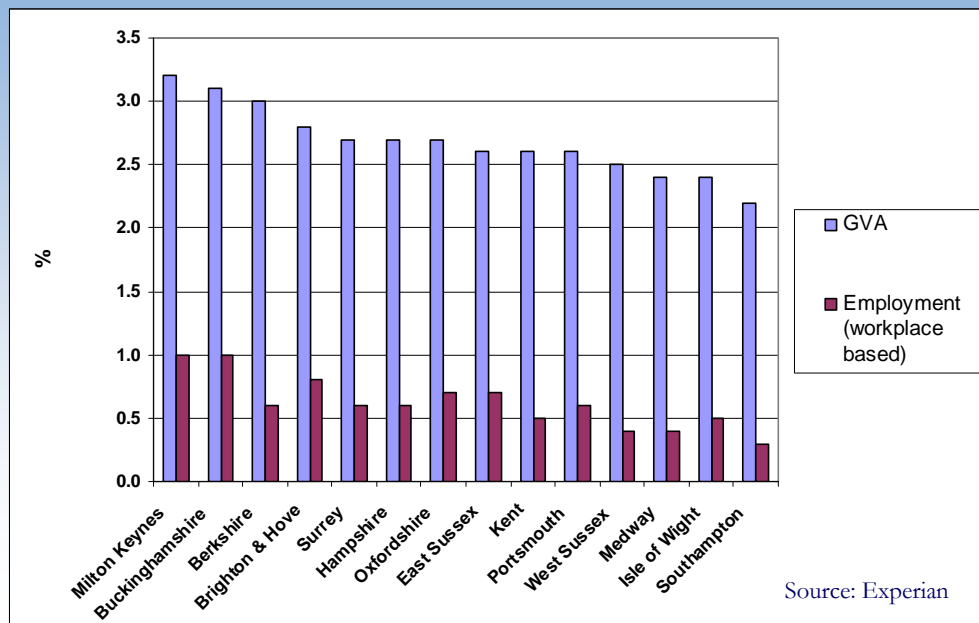
- Looking in more detail – W. Sussex saw significant drop in employment in banking, finance and insurance (-3.5% pa), and Portsmouth and S’ton also experienced falls, while all other sub-regions saw employment in this sector increase. In Surrey and Southampton – very sharp drop in employment in utilities from 2002-06 (-20-30%) – though this is a relatively small sector of the economy. Surrey and Berks had fastest rate of decrease in manufacturing employment out of all sub-regions (-7% and -8% pa).

- In Construction, fastest growth in employment = Surrey and E. Sussex (6% pa). All other sub-regions – slow growth or even decline.

- Public services – by far strongest growth in employment = in Southampton (8% pa).

# Forecasts

## Forecast average annual growth rate – GVA and Employment, 2006-2016



- Forecasts from Experian (2008). **Note forecasts drawn up before full extent of current downturn known – likely to be revised downwards quite significantly when we receive new forecasts this autumn.** Also note these are forecasts of *total* GVA not GVA per head. Also these are largely policy neutral projections (e.g. don't take account of major planned housing developments like Thames Gateway).

- Overall, strongest growth in both GVA and employment forecast for MK and Bucks, with weakest growth in Medway, IOW and Southampton.

- Expectation is that new forecasts will show GVA growth over next few years at slower rate than in period 2002-05. Could take number of years before growth recovers to rates seen in late 1990s / turn of the century.

## GVA forecasts by sector, 2006-2016

- In all sub-regions – strong growth in GVA forecast in financial and business services; transport and communications; and distribution, hotels and catering.
- Slow growth / decline in GVA in manufacturing and engineering – esp. in Medway, Portsmouth and Southampton.
- Relatively slow growth in GVA in construction – slowest in Oxfordshire and Hampshire, fastest in Brighton and Hove and Isle of Wight.



- Again note that forecasts likely to change/ be revised downwards.

## Employment forecasts (workplace-based) by sector, 2006-2016

- Employment growth in Financial and business services in all sub-regions – fastest in Portsmouth and Buckinghamshire; slowest in West Sussex.
- Employment growth in Public services and Distribution, hotels and catering in all sub-regions (though at a slower rate than business services).
- Significant employment decline in Construction in all sub-regions – fastest in Isle of Wight and Buckinghamshire; slowest in Southampton, Milton Keynes and Brighton and Hove.
- Decline in Manufacturing and Engineering employment in almost all sub-regions – most notably Portsmouth and Southampton.
- Significant decline in employment in Utilities and Mining – esp. in Surrey and Medway.



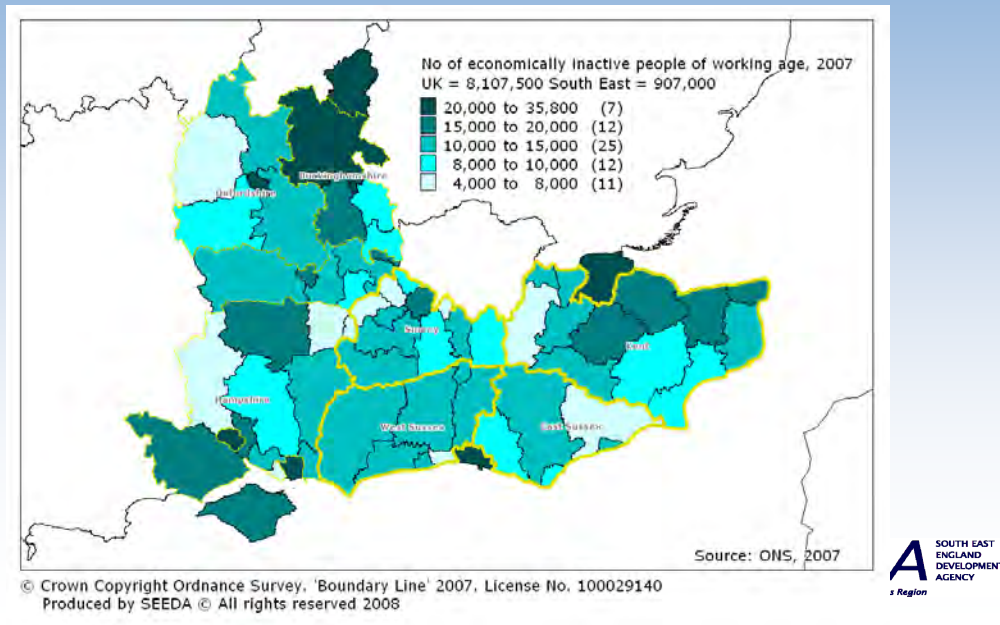
- Forecasts relate to nos of employees working in each sub-region, not number of residents in employment.
- Current economic uncertainty makes forecasting v. difficult. However, SE has structural advantages over other English regions (eg. highly skilled population, high % of employment in private services) that implies it is better placed than some other regions to 'weather' current financial crisis.
- Figures: growth in financial and business services between 1-3% pa on average.
- Growth in public services and distribution <1% pa.
- Employment decline in Construction ranges from -5% pa in IOW and -3% in Bucks to -1-2% in MK, S'ton and B&H.
- Mining and Utilities employment decline: -14% pa in Surrey, -7% in Medway and -4% in Kent.

# Skills and Employment – supply and demand



- Have given overall picture of economic performance in each county / unitary, but what's important for boosting economic growth is not just no. of businesses being created or no. of people in employment; also important is the *quality* of those jobs and the ability of people locally to do those jobs.
- In this section – looking at skill levels of resident population, and extent to which this meets employer demand for skill in different sub-regions.
- Using more fine-grained analysis to show that 'broad-brush' statements about the performance of the economy in a whole county often mask distinct, localised variations in performance.

## Size of potential workforce – number of economically inactive people of working age, 2007

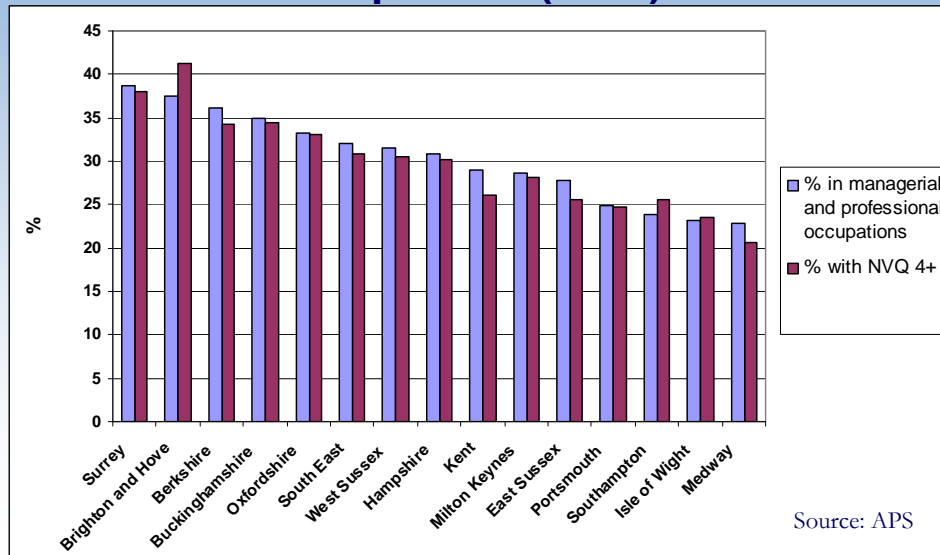


- Map shows significant concentration of economically inactive w/a people in urban centres of Portsmouth, Southampton, Medway, Milton Keynes and B&H (>20,000) and to lesser extent in parts of north Kent and Hants (15,000-20,000).
- In % terms, very clear E-W split in the region, with economic inactivity *rate* being significantly higher in Kent and E. Sussex, lower in W. Sussex and eastern parts of Surrey and lowest in western Surrey and Oxon and Berks.

Within economically inactive population:

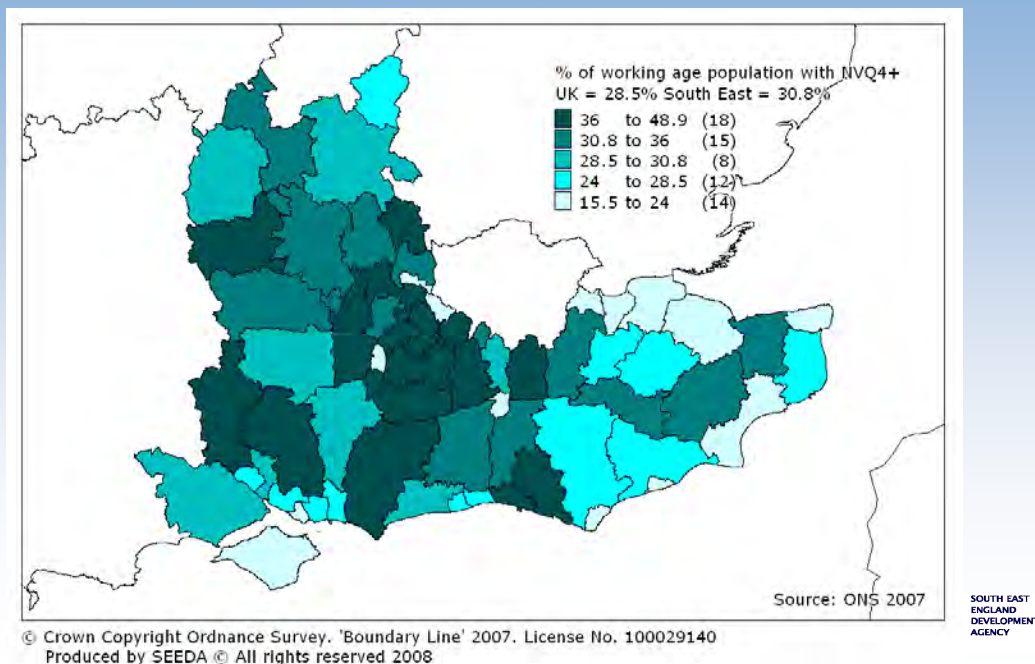
- Strong concentration of DLA and IB claimants in Kent and E. Sussex (compared to rest of region) - particularly in coastal districts (north and east Kent, southern parts of Sussex); relatively high nos in rest of Kent and eastern half of E. Sussex; significantly lower nos in Surrey and far west of Kent.
- Higher proportion of older people (50+) are inactive in coastal areas (esp. north and east Kent and also in Horsham, Arun and Lewes in Sussex). N and W of region – generally much smaller proportion of older people are inactive.

## Proportion of working age population with NVQ 4+ and proportion of those in employment working in managerial and professional occupations (2007)



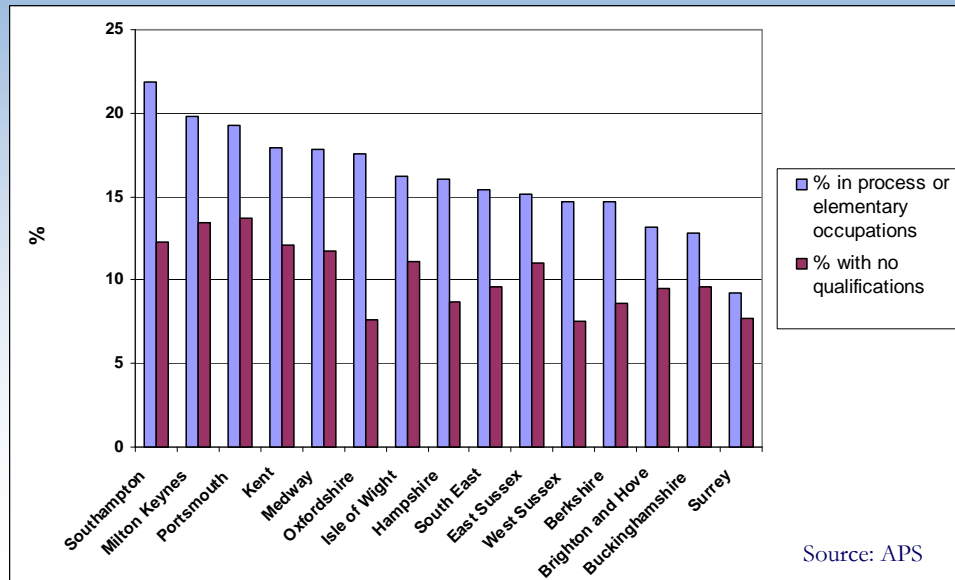
- Looking at skills profile of resident population in SE:
- Clear correlation between % with NVQ 4+ and % working in higher skilled occupations.
- Medway, IOW, Portsmouth and S'ton have lowest skilled resident populations on this measure (significantly below regional average) whereas Surrey, B&H and Berks significantly above regional average.
- In most sub-regions - % of people in higher skilled occupations is slightly larger than % with NVQ 4+. Exception = B&H – sig'ly larger proportion of people with NVQ 4 than in higher skilled occupations. Probably reflects significant numbers of students in the area who aren't in work...?

## % of working age population qualified to NVQ 4 or higher (2007)



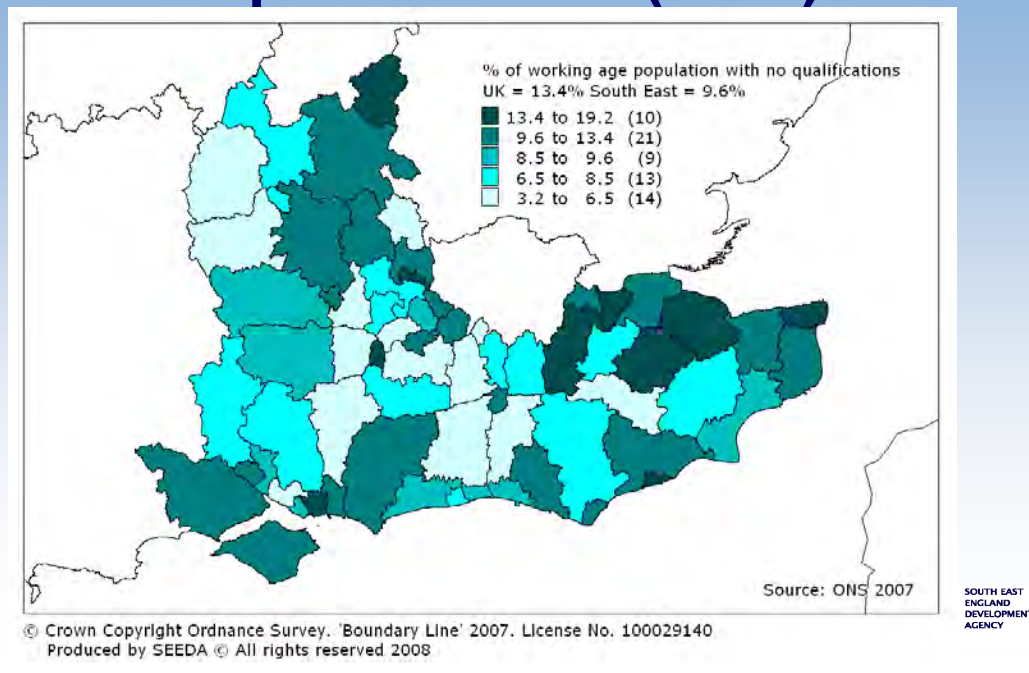
- Quite a clear east-west split - v. high proportion of people with NVQ 4+ in MKOB, Surrey and Berks and in western parts of W. Sussex. Most of E. Sussex and Kent – lower % of people with this level of qualification.
- Parts of Kent and E. Sussex show poorest performance of the whole region on this measure.
- Interesting intra-county differences: mid Kent performs better than periphery of the county; far west of E. Sussex performs better than rest of county.

## % of working age population with no qualifications and % of those in employment working in process or elementary occupations (2007)



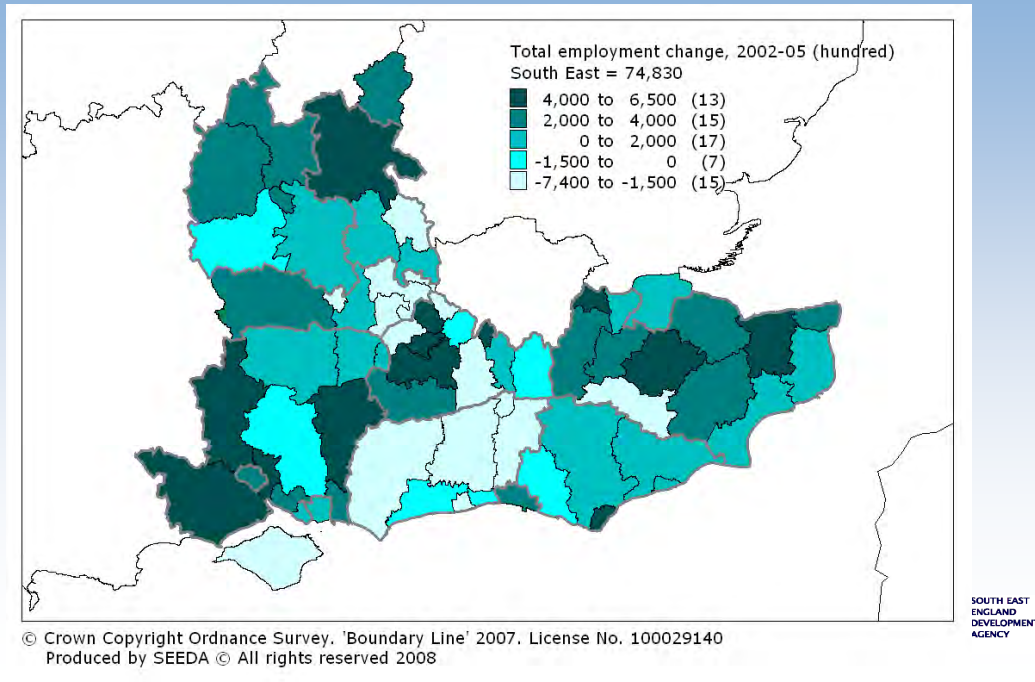
- Again we see some correlation between % of people with low/no skills and % of people working in lower skilled occupations – but differential between the two is greater in most sub-regions than it was for NVQ 4.
- Surrey – smallest difference between % with no quals and % working in low skilled occupations. Reasons: either very few people in Surrey work below skills level (i.e. gd match between lower skill people and lower skill jobs) OR fewer people with no quals are in work.
- Largest difference between 2 figures in Oxon and S'ton – suggests either significant numbers of people in these areas work below their skills level OR more unskilled people are in work in these areas. Would need further research to assess which is more plausible reason.

## % of working age population with no qualifications (2007)



- Almost a mirror image of the NVQ 4+ map – relatively high proportions of w/a people with no quals in east of region (esp. in Kent and E. Sussex), with lower proportions in west of region (with exception of Bucks).
- Again, interesting intra-county differences: particularly high proportions of people with no quals (at least 13%) in parts of N. Kent, but significantly lower proportions (<7%) in southern parts of Kent. In W. Sussex – higher proportions of people with no quals in Chichester and Arun, and much lower in Horsham and Mid Sussex. In Surrey – areas just to south of London (eg. Elmbridge and Spelthorne) – significantly higher proportion of people with no quals than in south of county.

## Total employment change by district, 2002-2005 (workplace based)



- Having looked briefly at supply of skills in resident population, now move on to consider employment demand. Begin with recent changes in no. of employees – to assess changes in employment demand in recent years across each sub-region.
- Note employment *decline* in W. Sussex, eastern parts of Surrey and parts of Bucks and Berks.
- Strong employment growth in districts in W. Surrey like Woking and Guildford, in much of central Kent (particularly Maidstone and Canterbury), as well as in parts of Hants (eg. New Forest and Test Valley) and N. Oxon and N. Bucks (eg. Aylesbury Vale).

## Future employment demand at different skill levels: 2007-2012

- Strong growth in demand for higher level occupations and low-skilled occupations, but reduction in demand for jobs requiring 'intermediate' levels of skill.
- Kent and Medway – high rates of growth in Associate Professional and Personal Service occupations.
- Hampshire and Isle of Wight – high rates of growth in Personal Service occupations.
- Surrey and Sussex – lower rates of growth in both high-skilled and low-skilled occupations, but slower rate of contraction in Admin and Secretarial occupations.
- MKOB – higher growth in Professional Occupations and slower rate of contraction in Admin and Secretarial jobs.



• Figures from IER study on changing employment demand in different sectors, occupations and sub-regions. Economic forecasts on which employment projections are based date from second half of 2007 and reflect slowdown in US economy and expected slowdown in Euro-zone following a period of buoyant growth, alongside a projected real rise in oil prices. **Don't reflect latest economic developments.**

• Occupation and qualification used as proxy for skill.

• Over period 2007-2012, general trend across SE for relatively strong growth in demand for 'higher-level occupations' (managers, professionals and associate professionals) and for jobs requiring much lower levels of skill (Personal Service and Sales occupations). On-going contraction in demand for Admin and Secretarial occupations and mainly manual jobs (Plant and Machinery Operatives and Elementary Occupations). i.e. 'hollowing out of the middle' in demand for skill.

• Sub-regional variations – see slide.

## Future employment demand at different qualification levels: 2007-2012

- Projected increase in demand for people qualified at NVQ Levels 3,4 and 5 and fall in demand for those with Level 1 or below.
- Growth in demand for people with Level 2 qualifications – particularly in industries where employment is forecast to increase – eg. health and social care.
- Substantial increase in number of people with Level 3 in some occupations like skilled construction workers.



- Reflecting growth in demand for higher skilled occupations, forecast for increase in demand for people qualified at levels 3,4 and 5 and fall in demand for people with Levels 1 and no quals.
- General trend for increasing level of educational attainment across the SE – where jobs have traditionally been filled by people at, say, L3 – an increasing share of people in those jobs will be qualified at Level 4 and above in future.
- Increase in demand for skilled construction workers – but likely to be from 2010/11 onwards (drop in demand in short term due to economic slowdown). Key issue = how to retain and attract skilled workers in construction in face of current slowdown and competition from London.

## Forecast total additional jobs 2007-2012

	Net change	Replacement demand	Total additional jobs
South East	145,000	745,000	889,000
Surrey	23,000	104,000	127,000
Sussex	15,000	126,000	141,000
Hampshire and Isle of Wight	36,000	167,000	203,000
Berkshire	17,000	85,000	102,000
MKOB	24,000	130,000	153,000
Kent and Medway	29,000	132,000	162,000



- So far we've been talking about additional jobs required due to expansion of the economy. But – important to consider factors like age structure of workforce, levels of migration out of SE and its sub-regions, and levels of labour turnover. This helps to give us an indication of total number of people that will have to be recruited to fill jobs which will become available thro job creation, job mobility and retirement in future.

- In the table, net change = no. of additional jobs created by expansion in economy (i.e. expansion demand). Replacement demand = no. of people required to replace people who retire, change jobs, move out of the area, etc. Can see that this is a lot larger than expansion demand, yet it's not always taken into consideration in forecasting. Once take replacement demand into account – total no. of additional employees required is v. significant.

- In most sub-regions, replacement demand is 5 times the number of additional jobs likely to be generated by expansion demand. In Sussex it's as high as 8 times (possibly reflecting older age profile of population in parts of Sussex...?)

## Skills shortages and skills gaps

- On average, 5% of employers reported skills shortage vacancies (SSVs) in 2007 (4% in Berks; 6% in MKOB).
- MKOB had the largest number of SSVs and Berkshire the smallest.
- Kent and Medway and Surrey had a greater concentration of SSVs in professional occupations than the SE average.
- Kent and Medway and Sussex had a significant concentration of SSVs in skilled trades occupations.
- Berks and Surrey had a higher concentration of SSVs in admin and secretarial occupations.
- On average 15% of employers reported skills gaps in their existing workforce (16% in Hampshire and 13% in Surrey)



•As well as considering future employment and skills demand in terms of nos of jobs, also useful to look at extent to which supply of applicants and their skills matches employer demand. One of the best measures we have is NESS – asks employers about their current vacancies and difficulties they face recruiting people because of shortage of skills (SSVs) and difficulties their current staff face in meeting what the business demands of them (skills gaps).

•% of employers with vacancies that are hard to fill because of shortage of applicants = 6% or 7% in most sub-regions.

•% of employers reporting vacancies that are hard to fill because of lack of applicants with required skills (SSVs) = 5% in most sub-regions, but slightly lower in Berks and higher in MKOB.

•In numeric terms, MKOB had largest no. of SSVs at the time of survey in 2007 (6,300) and Berks the smallest (2,800).

## Conclusion – effects of current downturn

- South East labour market particularly vulnerable to downturn due to:
  - Close links to London labour market
  - Large proportion of employment in business and financial services
- Recent growth in employment and economic activity starting to slow
- Rising unemployment and claimant count
- But, South East's structural advantages should help it to 'weather the storm'.



- SE has one of healthiest labour markets in UK (highest econ activity and employ rates of any region and one of lowest unemployment rates). Also one of the most highly skilled populations of any region.
- But – particularly vulnerable to effects of downturn because:
  - Closely tied to London labour market (sig. proportion of SE residents commute to London). As centre of UK financial markets, London = most exposed to fallout from credit crunch.
  - Sig. proportion of employment in SE = concentrated in sectors likely to be hit earlier and harder by effects of downturn. Financial and business services sector accounts for 24% of employment in region (more than any other region outside London). 130,000 people employed in FS alone in SE, and 730,000 *residents* of SE work in FS (mostly in London). Approx. 900 job losses in FS sector in SE June-Aug 08 (BERR redundancy data).
  - Recent growth in employment starting to slow (increased by 1,000 in 3 months to Aug, compared to 28,000 increase in 3 months to July).
  - Unemployment hit 200,000 in August – up by 28,000 on previous quarter (largest increase outside London).
  - No. of JSA claimants increased by 3,300 between Aug and Sept – reaching 80,500.
- BUT –
  - employment demand should hold up in SE (esp with high replacement demand and likely return of MW back to E. Europe → renewed skills shortages)
  - SE has structural advantages of strong service sector, buoyant labour supply and highly skilled population – should help it to recover from downturn. In general, SE tends to be affected earlier by economic downturns, but recover earlier too.