

Midlands Engine Partnership

Midlands Engine Economic Observatory

Top-down performance gap analysis

2019



Context from Work Programme

- T7: Top-down analysis of GVA and productivity performance, and decomposition of drivers. As with the Northern Powerhouse IER, CE will replicate the top-down analysis of performance for the Midlands Economy.
 - This will begin with the top-level indicator of GVA per capita and its constituents (productivity, employment and dependency rates), and will investigate the evolution and extent of the performance gap against a suitable benchmark.
 - The work will then move beyond this to understand the nature and causes of the gap by identifying and analysing the possible causes of the gap (this includes, among other things, access to skilled labour, infrastructure and connectivity, innovation, sectoral structure, demography, and governance).
 - Having completed the analysis at the level of the Midlands economy, our intention will then be to replicate this across the broad regions (east and west) and local areas (LEPs) within it, to examine the extent of the heterogeneity of performance gap and causes.

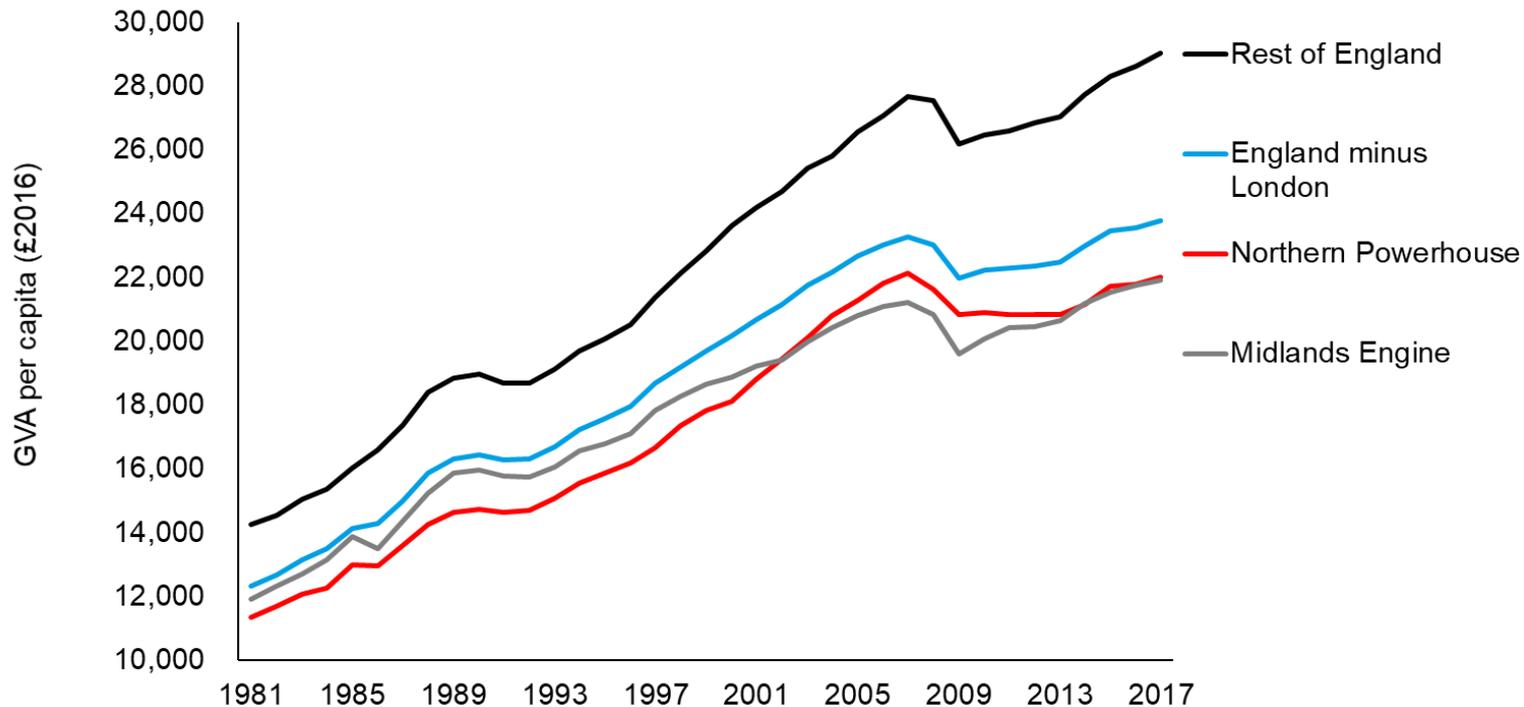
Overview

- Assessing the scale of the performance gap
- Decomposing the performance gap
- Identifying the drivers of the performance gap
- Going down to lower spatial levels of disaggregation

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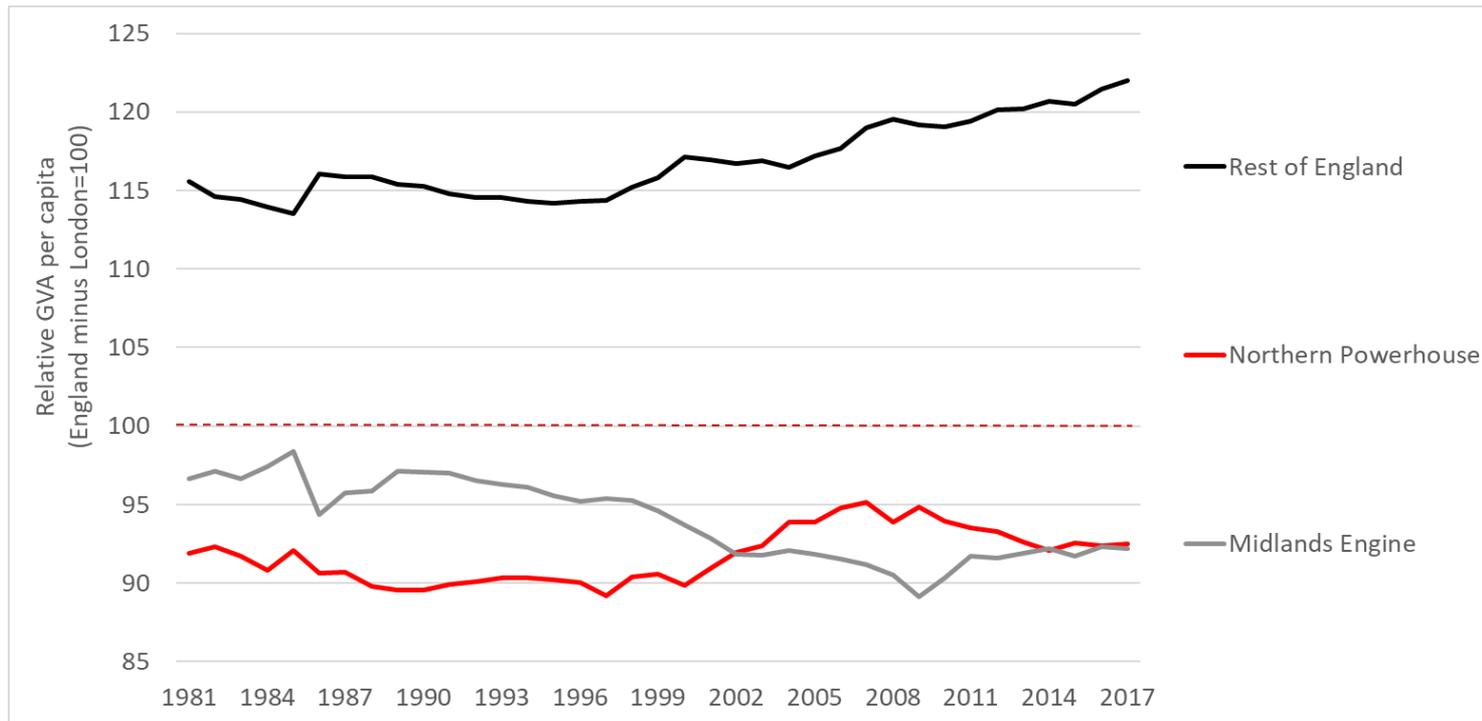
GVA per capita in the Midlands Engine has now recovered to broadly match that in the Northern Powerhouse...



Note: GVA measure in real terms, £2016 prices

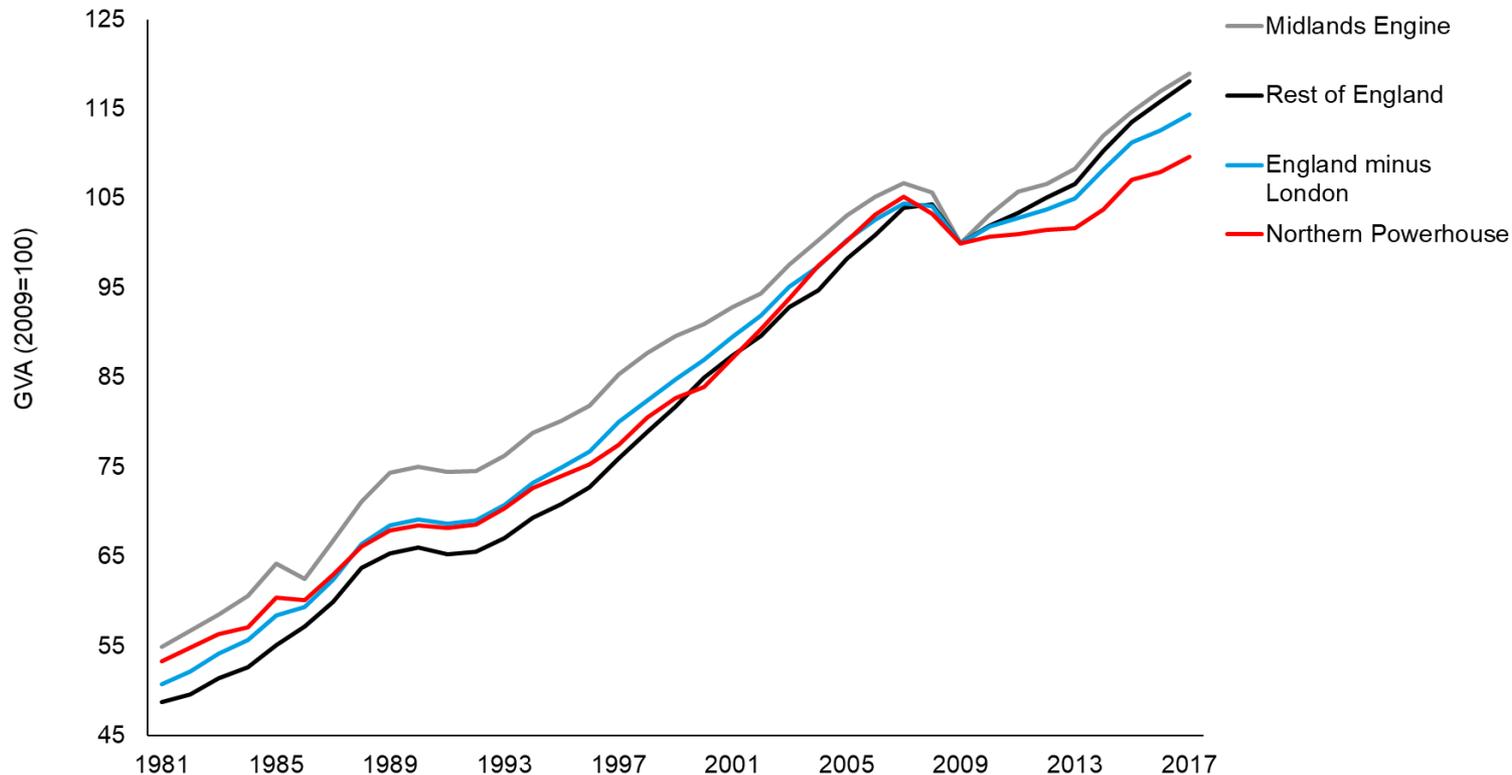
Source: Cambridge Econometrics, based on ONS data

...but the gap with the England minus London has remained broadly stable at around 7pp since the early 2000s



Note: GVA measure in real terms, £2016 prices
Source: Cambridge Econometrics, based on ONS data

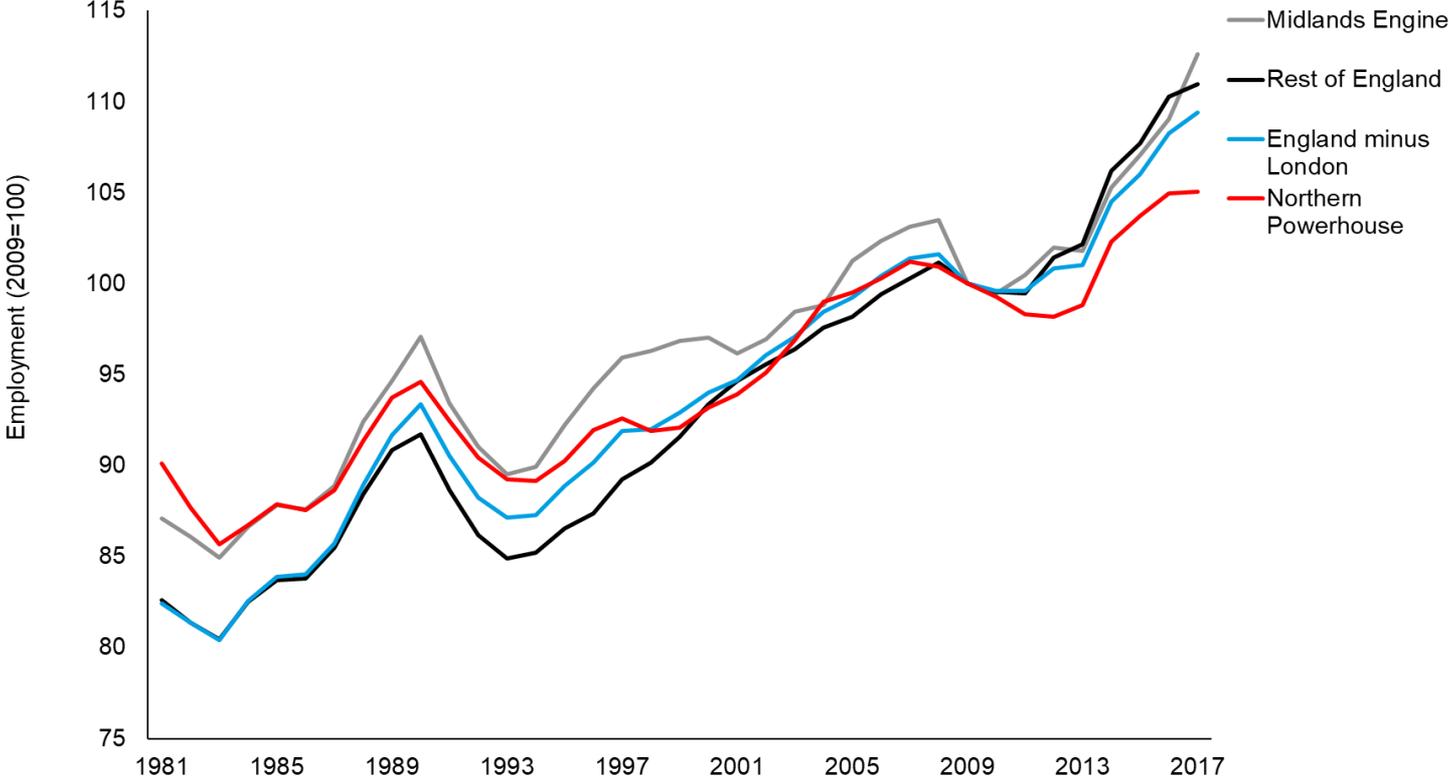
The Midlands Engine has had a relatively favourable post-recession output performance



Note: GVA measure in real terms, £2016 prices

Source: Cambridge Econometrics, based on ONS data

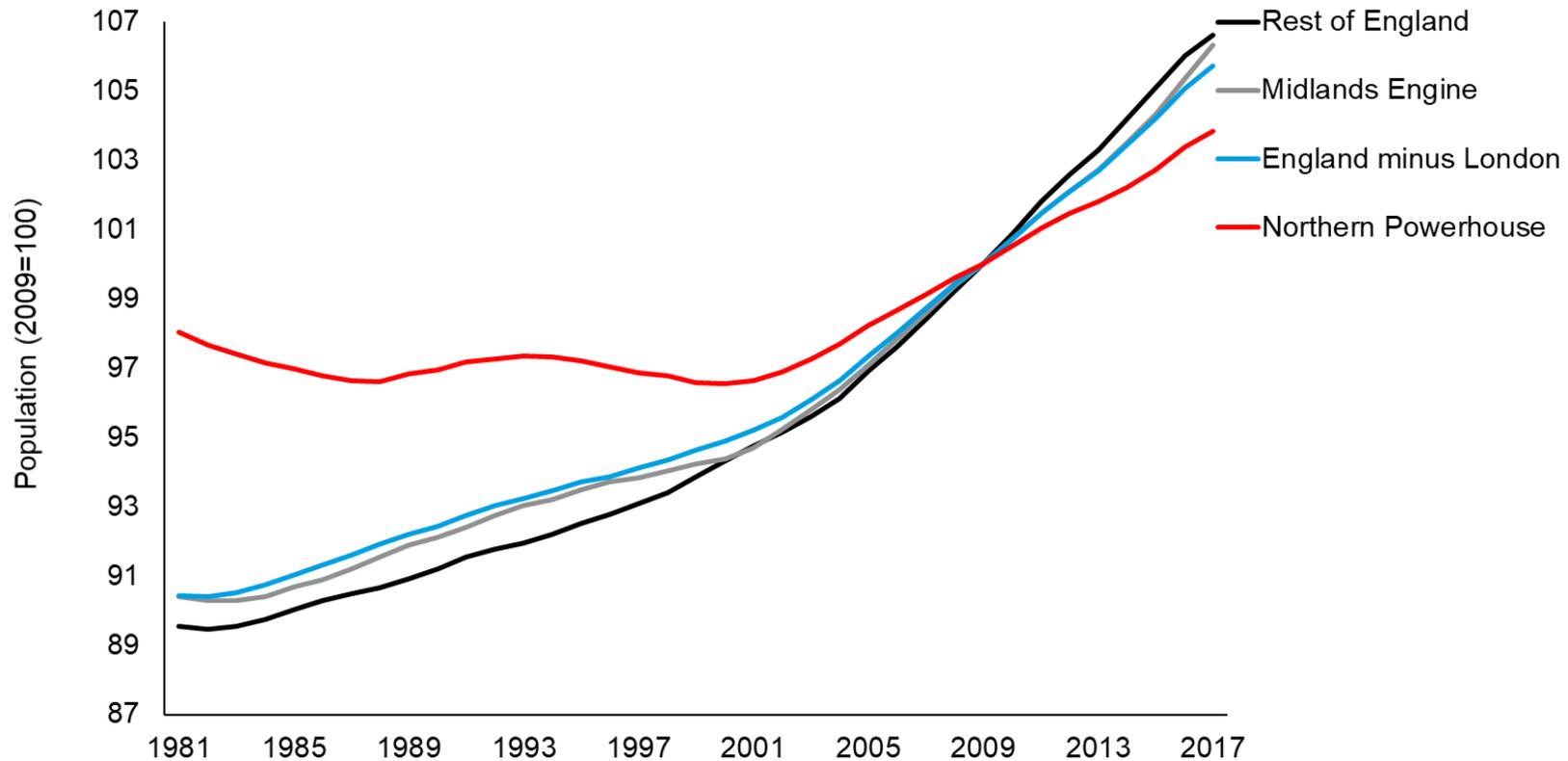
Post-recession employment in the Midlands grew at slightly faster rates compared to the rest of the regions in the past five years



Source: Cambridge Econometrics, based on Business Register Employment Survey (BRES) data

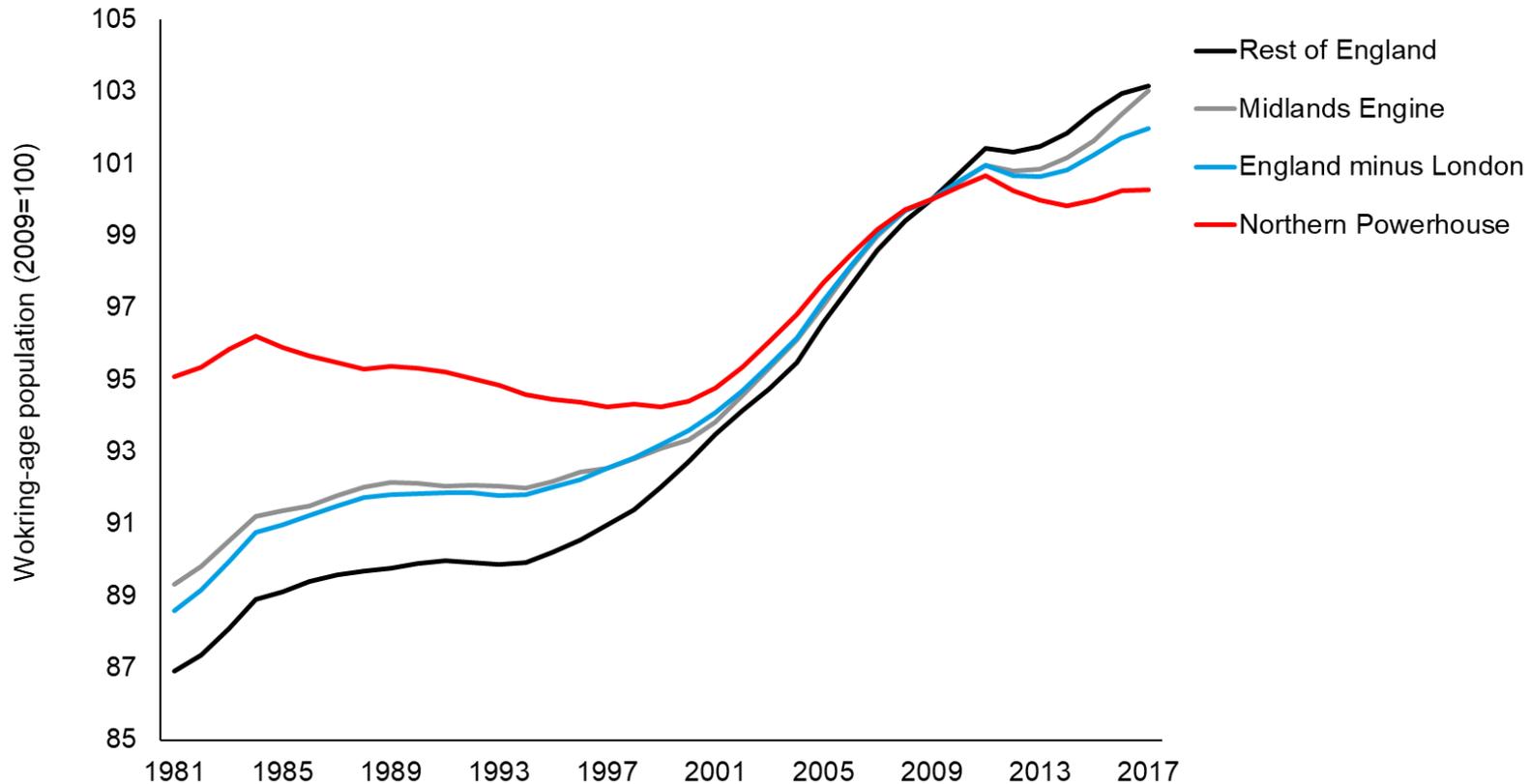


Population growth in the Midlands has been relatively strong in recent years



Source: ONS

Working-age population in the Midlands started to increase since 2013 and the growth gap with the Rest of England was closed in 2017

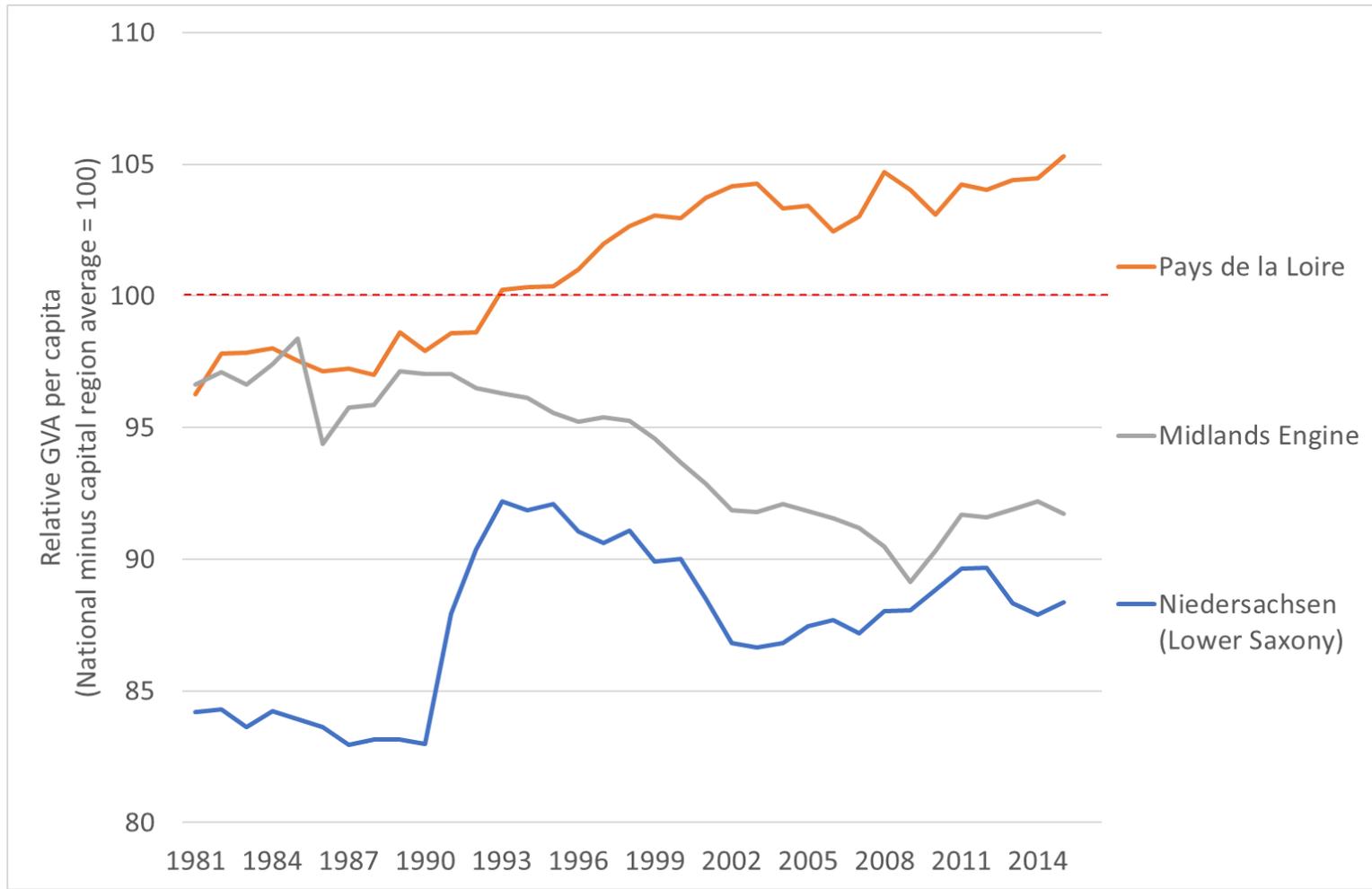


Source: Cambridge Econometrics, ONS

International performance comparisons

- Assess Midlands performance against regions with ‘similar’ characteristics from across Europe
 - provide an international perspective and additional learning
- Uses [DG-JRC S3 Tool](#) to establish ranking of regional similarity for Midlands region
 - similarity is based on a range of factors such as demography, education level, technological specialisation, sectoral structure, firm size, openness and values.
 - These measures are combined to form a distance index, the lower this figure, the more similar the regions are.
 - East and West Midlands are most similar to a number of areas in France, the closest being Pays de la Loire. Outside of France the lowest distance index figure is for Niedersachsen (Lower Saxony) in Germany.

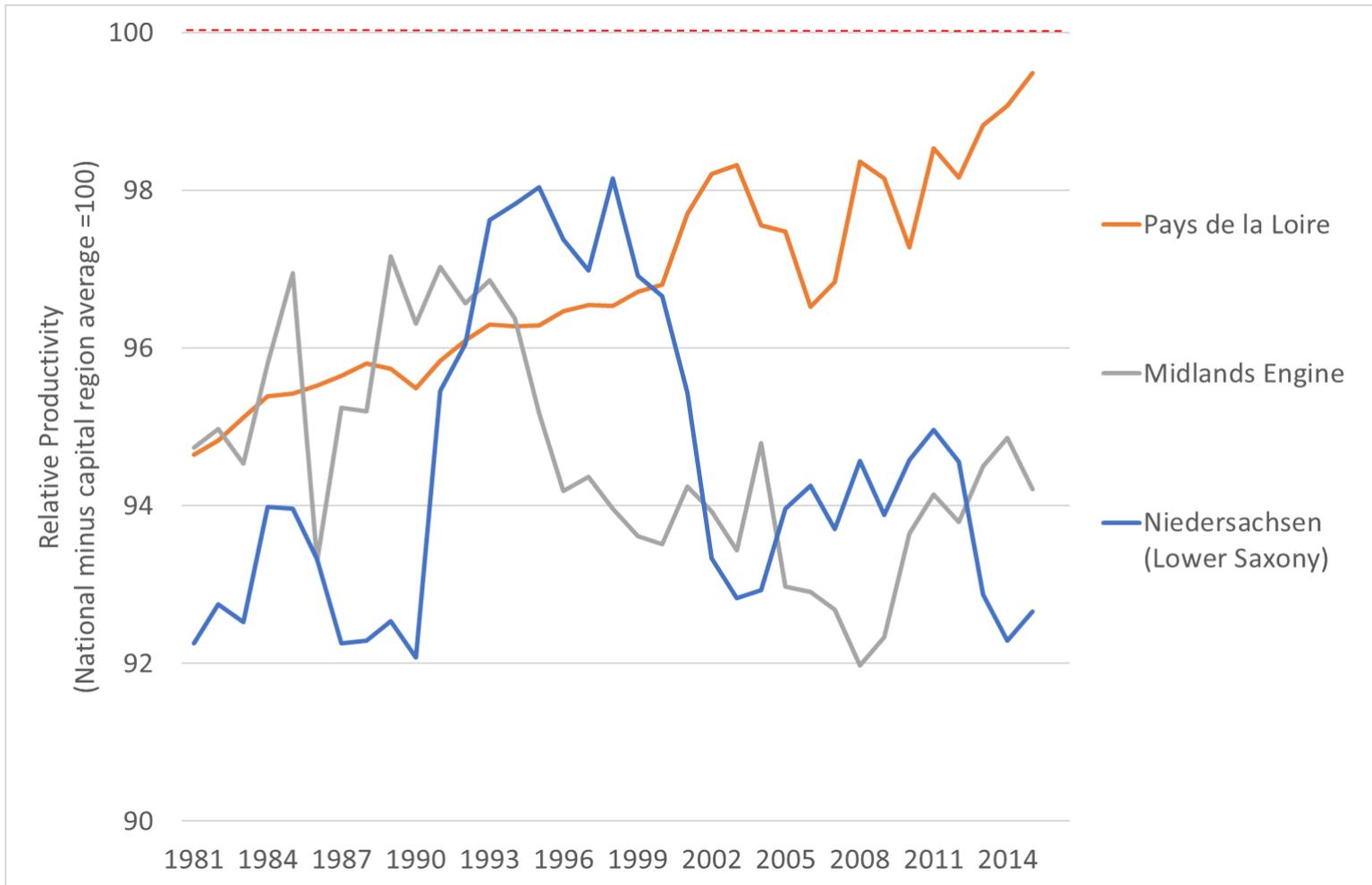
International comparison shows that until the late-1990s the Midlands performance was favourable, but declined during the 2000s...



Note: GVA measure in real terms, £2005 prices (Pay de la Loire & Niedersachsen), £2016 (Midlands Engine). German reunification and change in capital city affects German result.

Source: Cambridge Econometrics, based on ONS and Eurostat

...and, unsurprisingly, much of this widening performance gap was driven by worsening (relative) productivity



Note: GVA measure in real terms, £2005 prices (Pay de la Loire & Niedersachsen), £2016 (Midlands Engine). German reunification and change in capital city affects German result.

Source: Cambridge Econometrics, based on ONS, BRES and Eurostat

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Decomposing the Performance Gap

$$\frac{GVA_{wp}}{Population_{res}} = \frac{GVA_{wp}}{Jobs_{wp}} \times \frac{Workers_{res}}{WAP_{res}} \times \frac{Jobs_{wp}}{Workers_{res}} \times \frac{WAP_{res}}{Population_{res}}$$

GVA per capita = Labour Productivity x Employment Rate x Jobs per Worker x Working-Age Share

Contributions to growth in GVA per capita for the Midlands

Average growth rate (%pa)

	1992-2017	1992-2007	2007-2017
GVA per capita	1.3	2.0	0.3
Productivity	1.0	1.6	0.2
Jobs per Worker	0.1	0.0	0.2
Employment rate	0.3	0.3	0.2
WAP share	-0.1	0.1	-0.4

Contribution to Overall Change in GVA per capita (%)

	1992-2017	1992-2007	2007-2017
GVA per capita	100	100	100
Productivity	77	79	63
Jobs per Worker	9	2	72
Employment rate	21	15	71
WAP share	-7	4	-106

Contributions to growth in GVA per capita for England

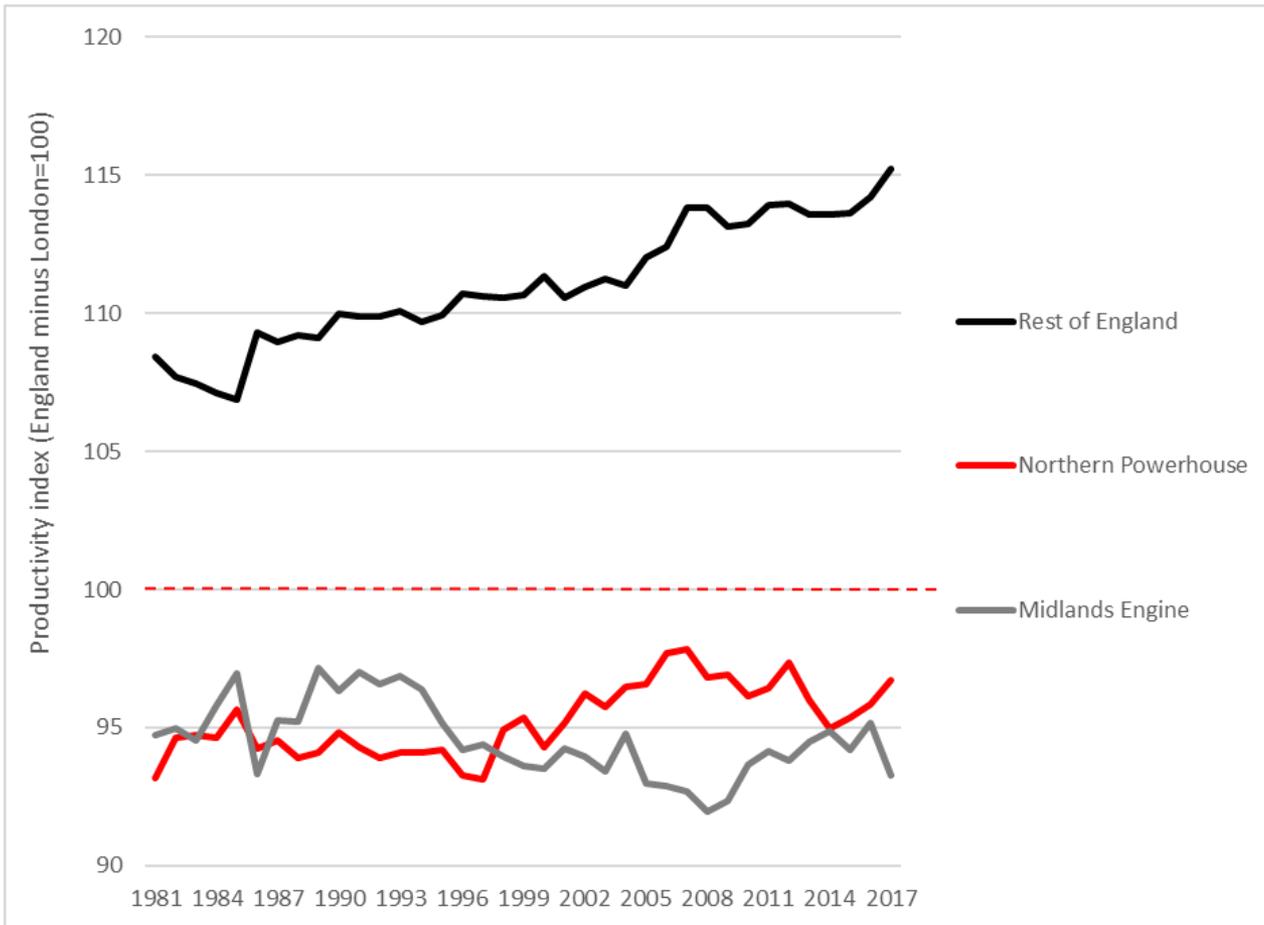
Average growth rate (%pa)

	1992-2017	1992-2007	2007-2017
GVA per capita	1.7	2.5	0.5
Productivity	1.3	2.0	0.3
Jobs per Worker	0.1	0.1	0.0
Employment rate	0.4	0.3	0.5
WAP share	-0.1	0.1	-0.4

Contribution to Overall Change in GVA per capita (%)

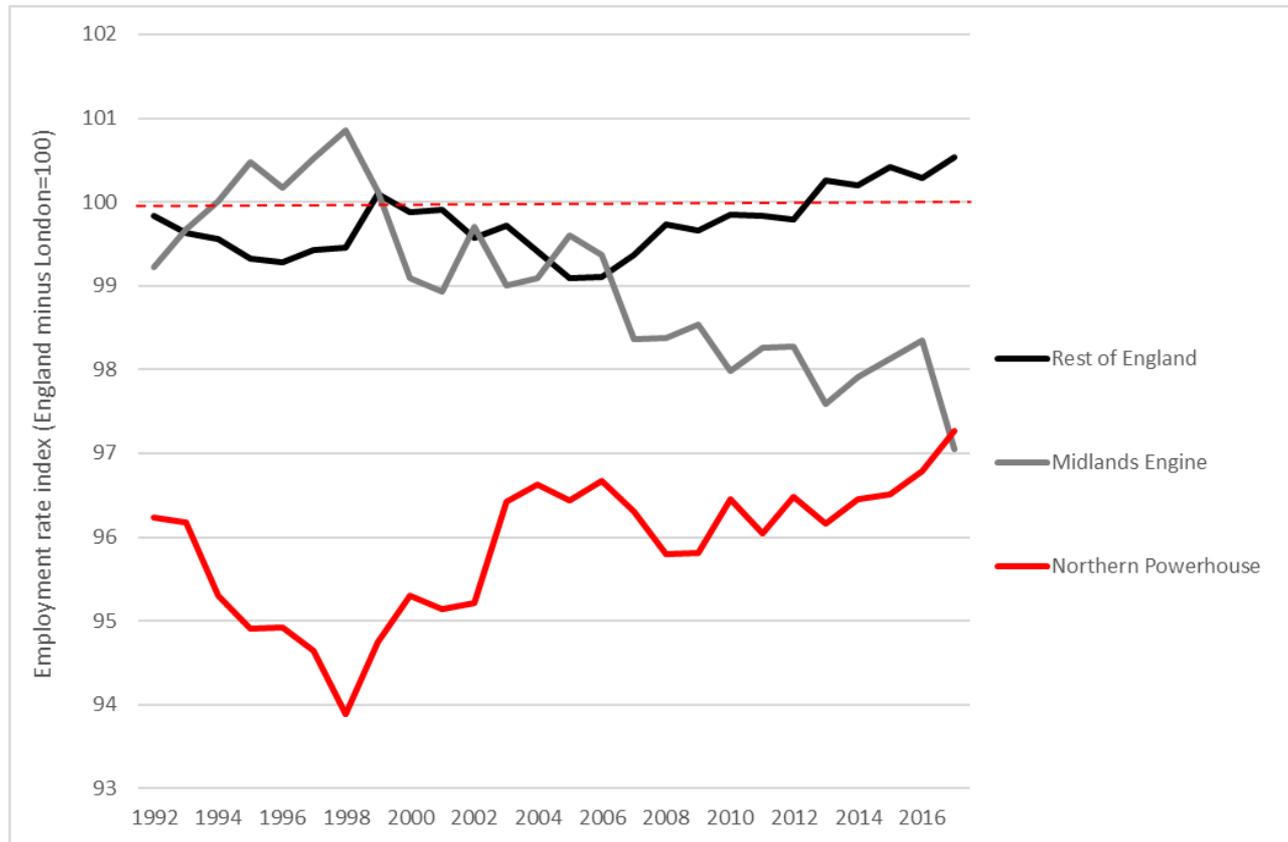
	1992-2017	1992-2007	2007-2017
GVA per capita	100	100	100
Productivity	77	79	57
Jobs per Worker	3	3	9
Employment rate	23	13	109
WAP share	-4	5	-76

The Midlands' productivity deficit with the comparator areas was narrowing post-recession, until quite recently

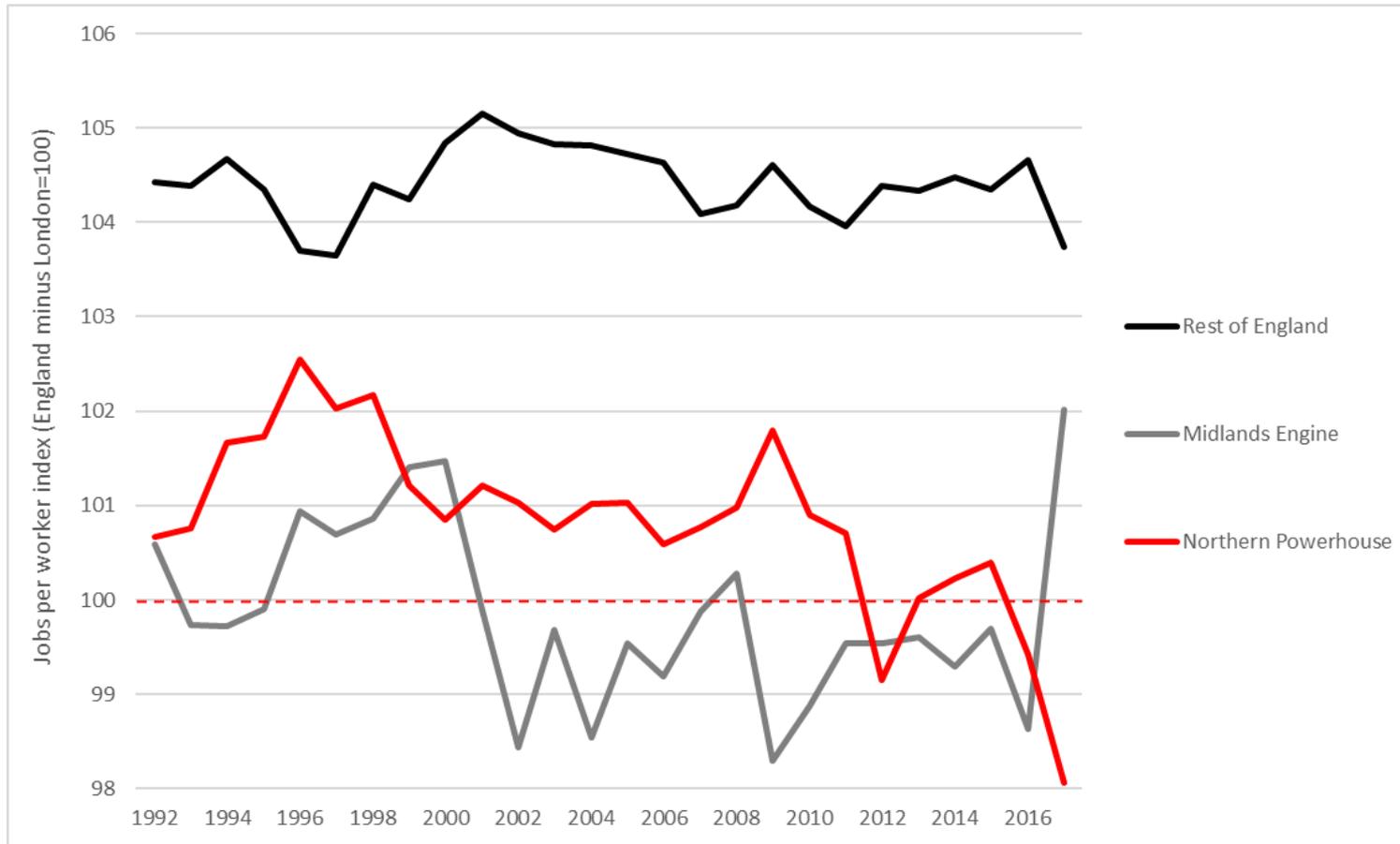


Source: Cambridge Econometrics, based on ONS and BRES data

Labour market performance in the Midlands has been worse than the Rest of England (and excluding London) since the onset of financial crisis

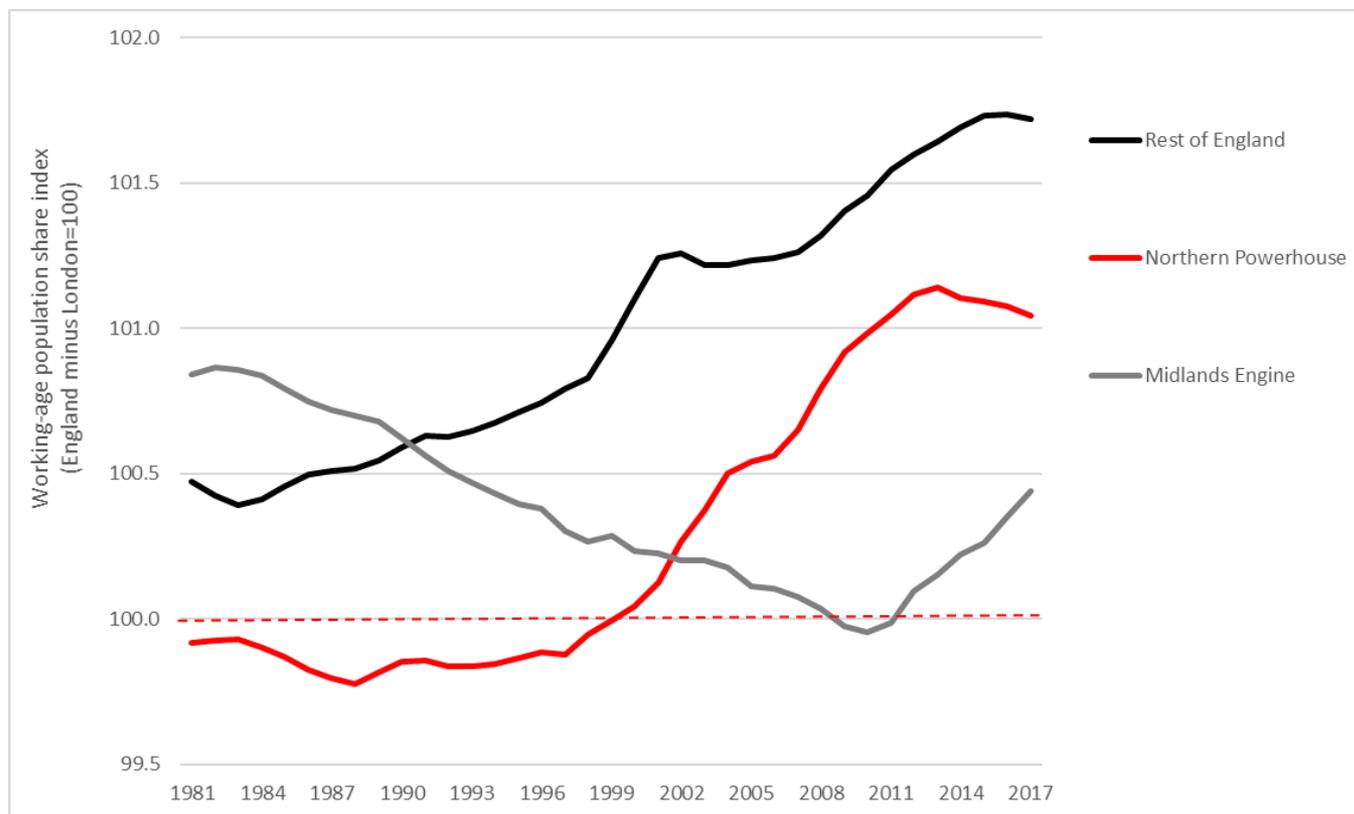


Employment (jobs) growth in the Midlands at record high



Source: ONS and BRES, Cambridge Econometrics calculations

Persistent WAP share gap with the Rest of England since early 1990s but started to close after 2010



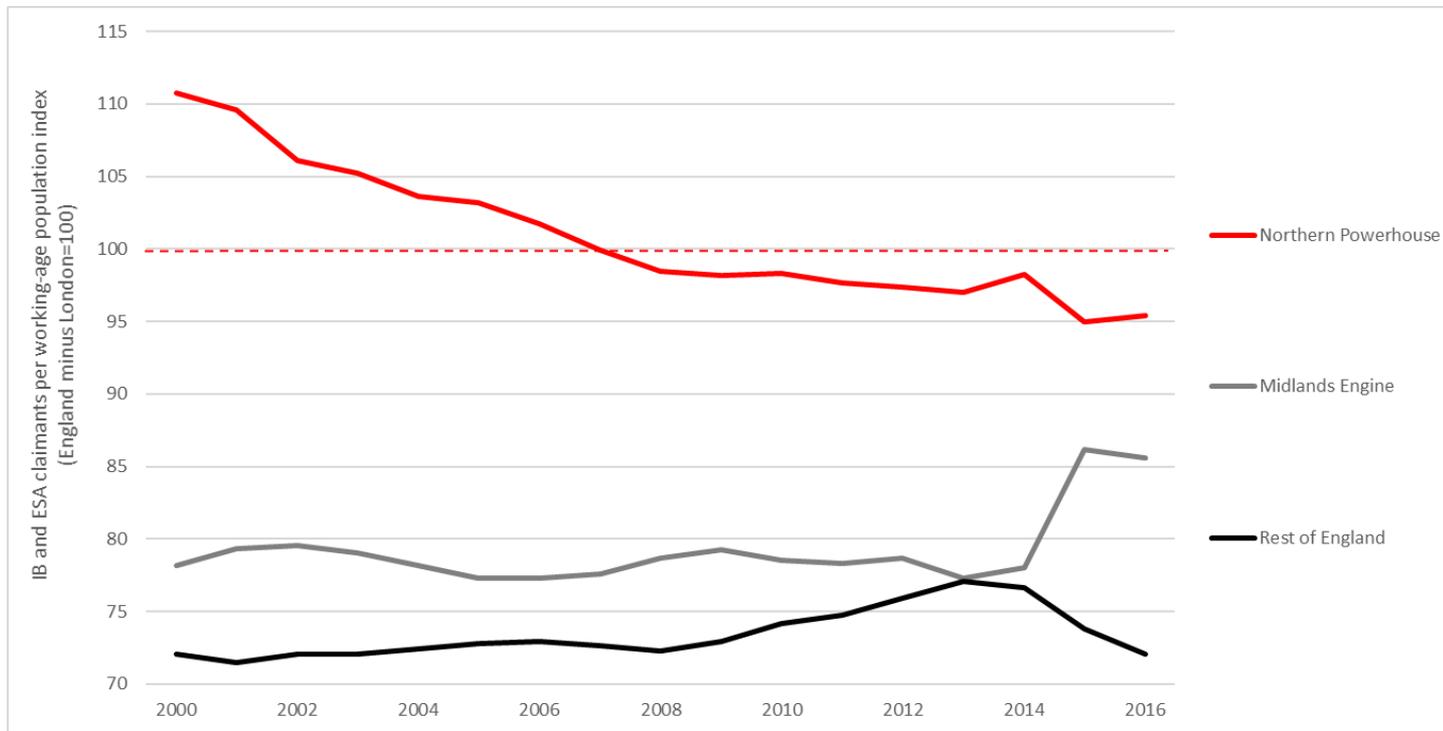
Source: ONS

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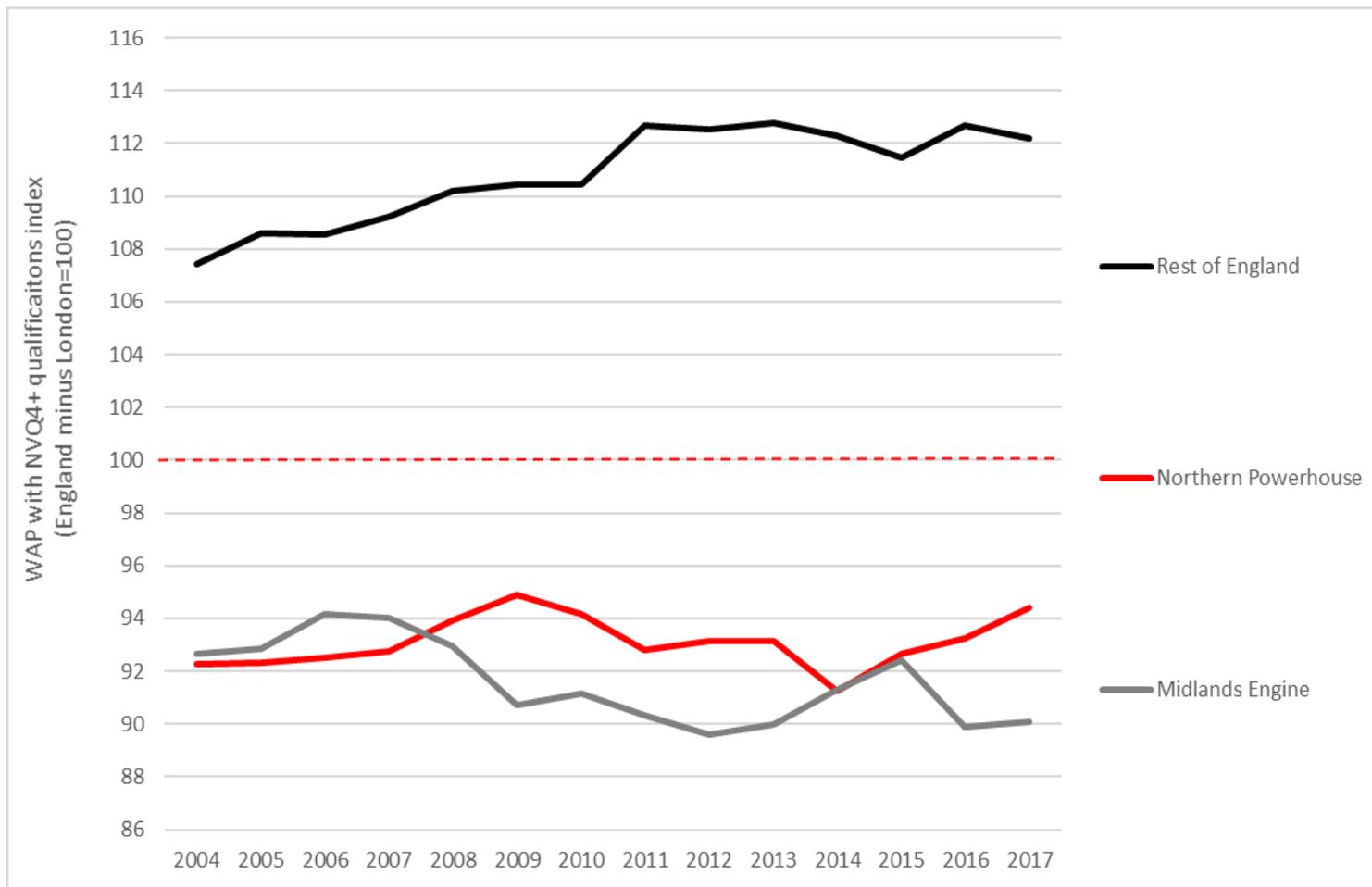
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A substantial increase in the proportion of individuals disconnected from the labour market in the Midlands in recent years

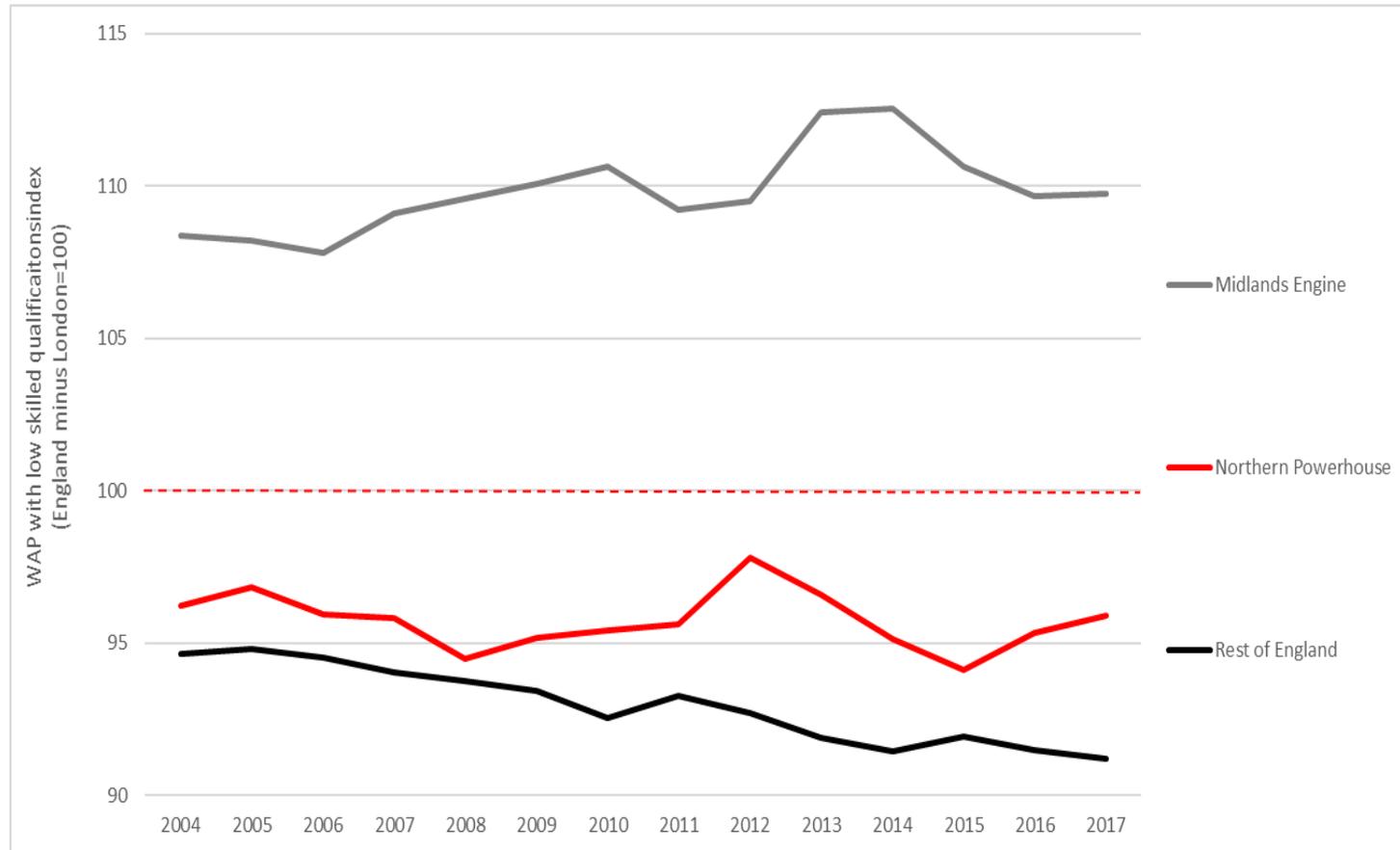
Trends in the Midlands' long-term unemployment



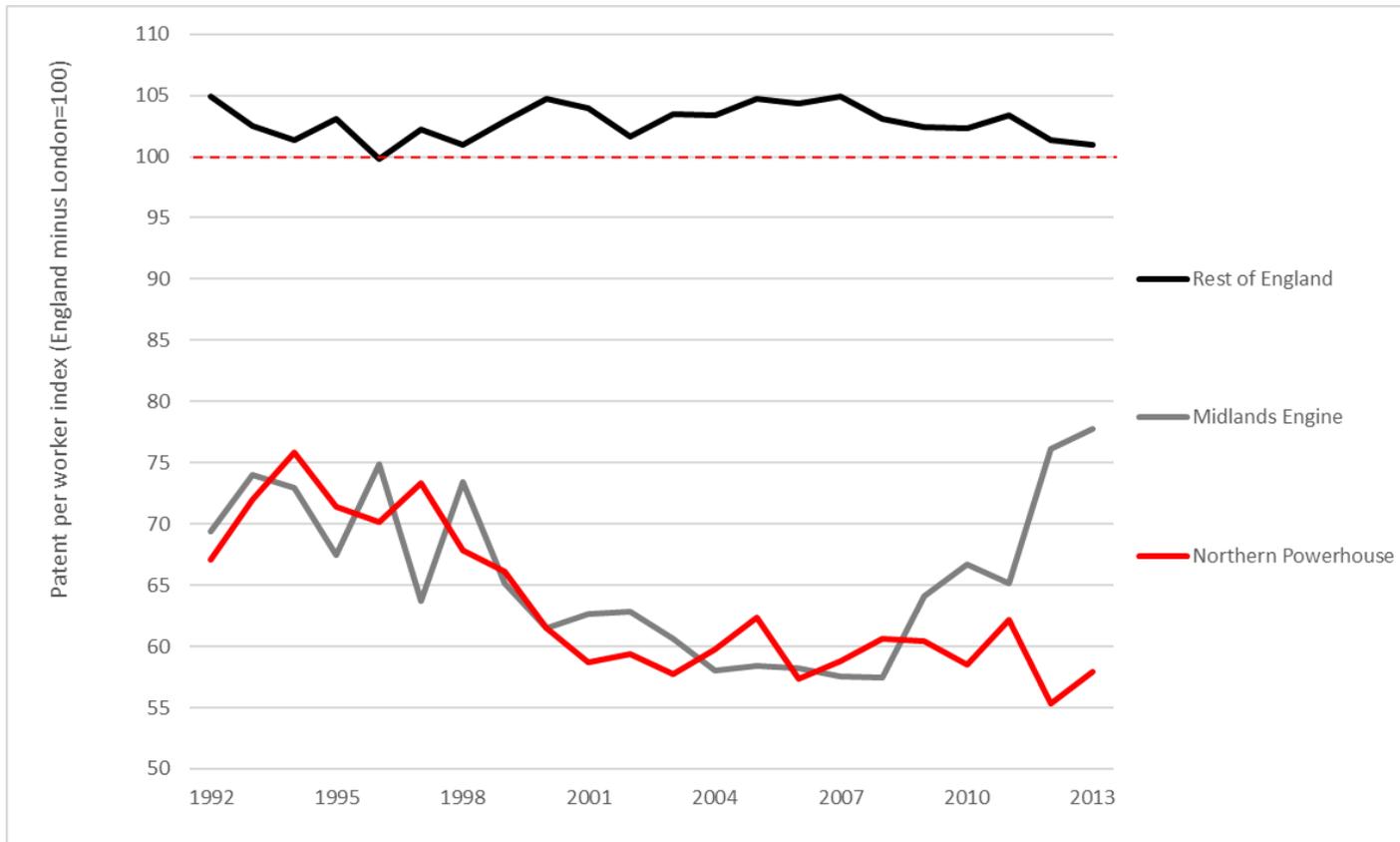
Skills: Persistent (and increasing) gap in highly-skilled workforce



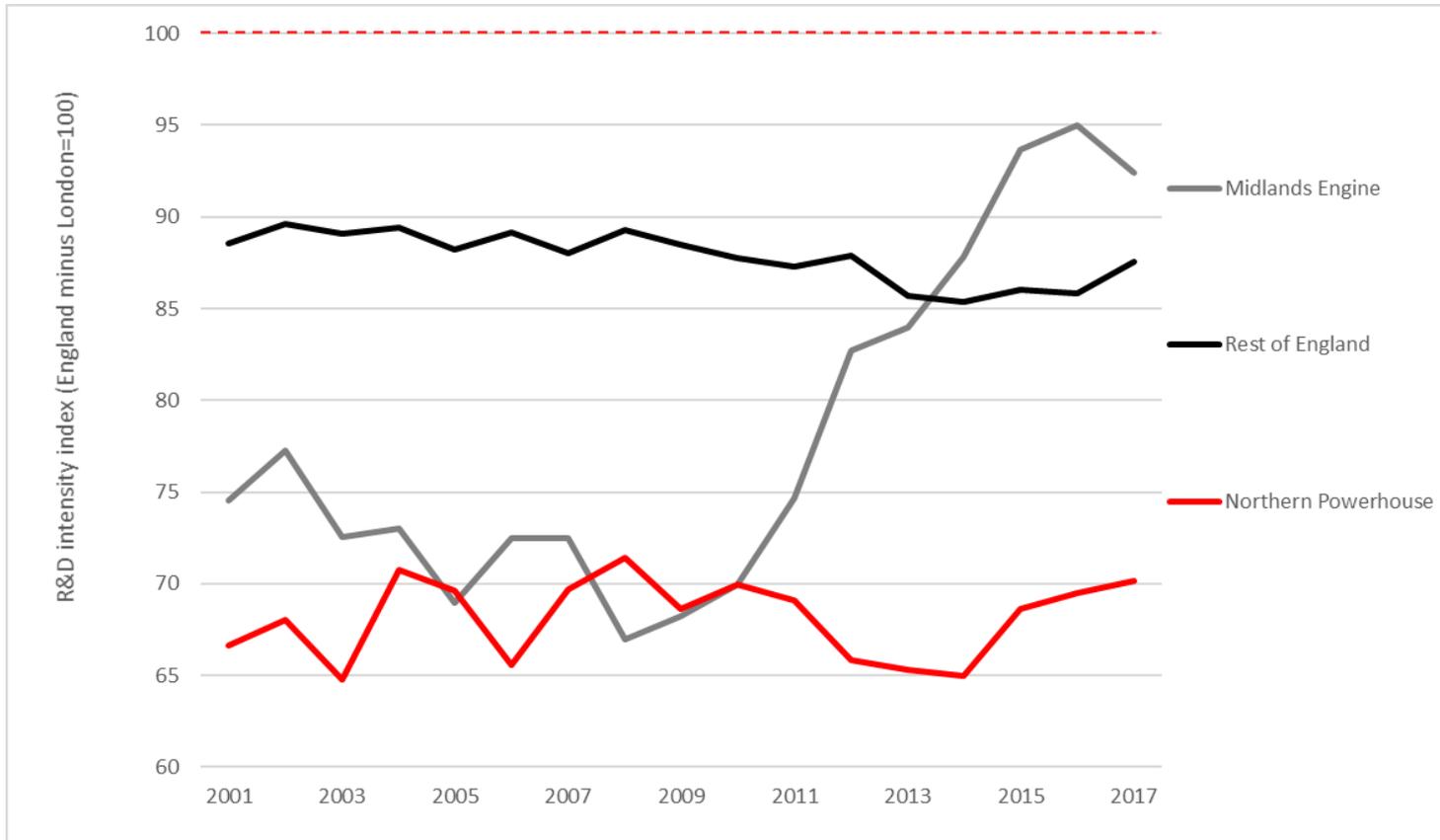
Skills: The Midlands has a higher proportion of low skilled workers and the gap is widening over time



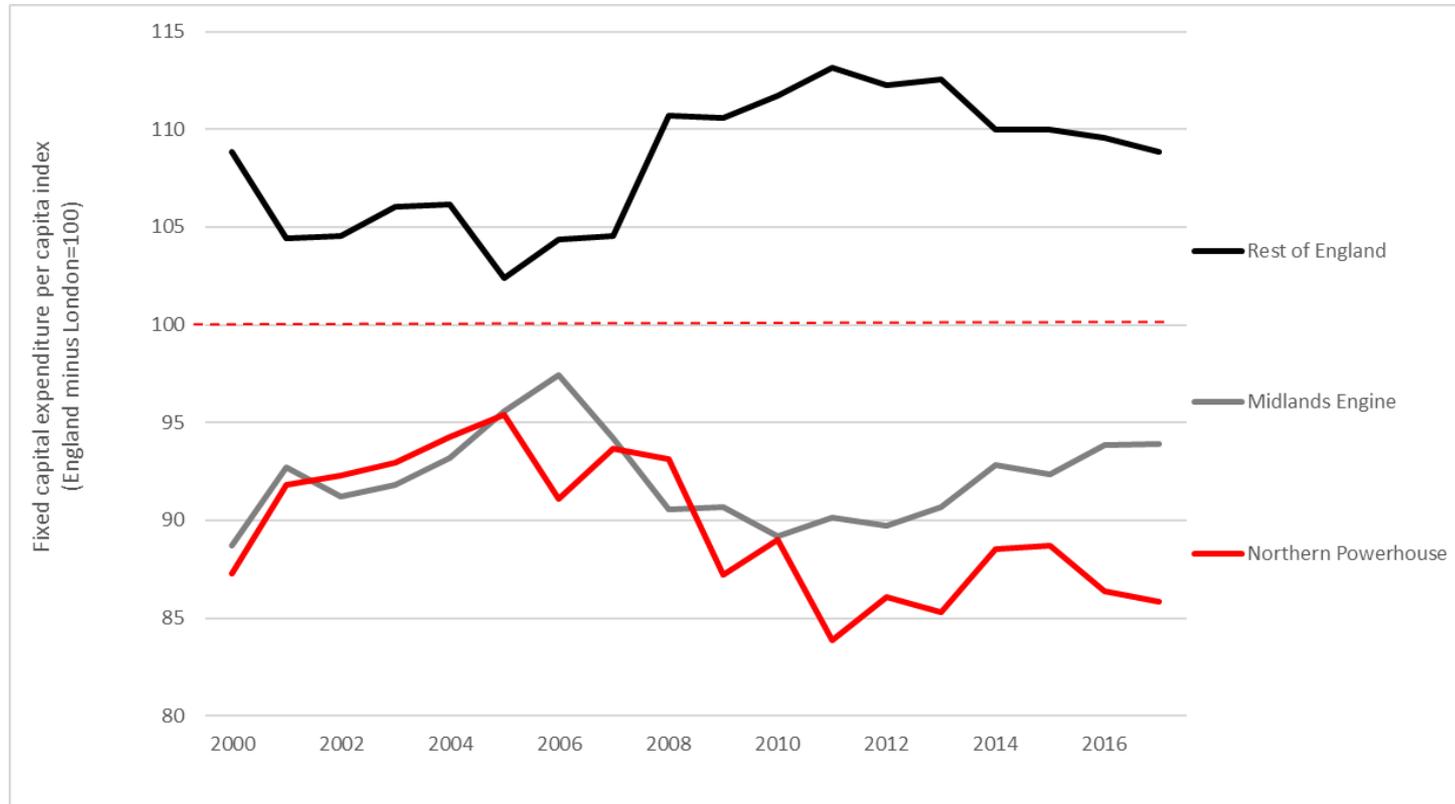
Technology: Persistent gap in the Midlands, but which has narrowed in recent years



R&D: Rapid narrowing of Midlands' research spending gap (% of GVA) in the post-recession period but this has slowed down in the last two years

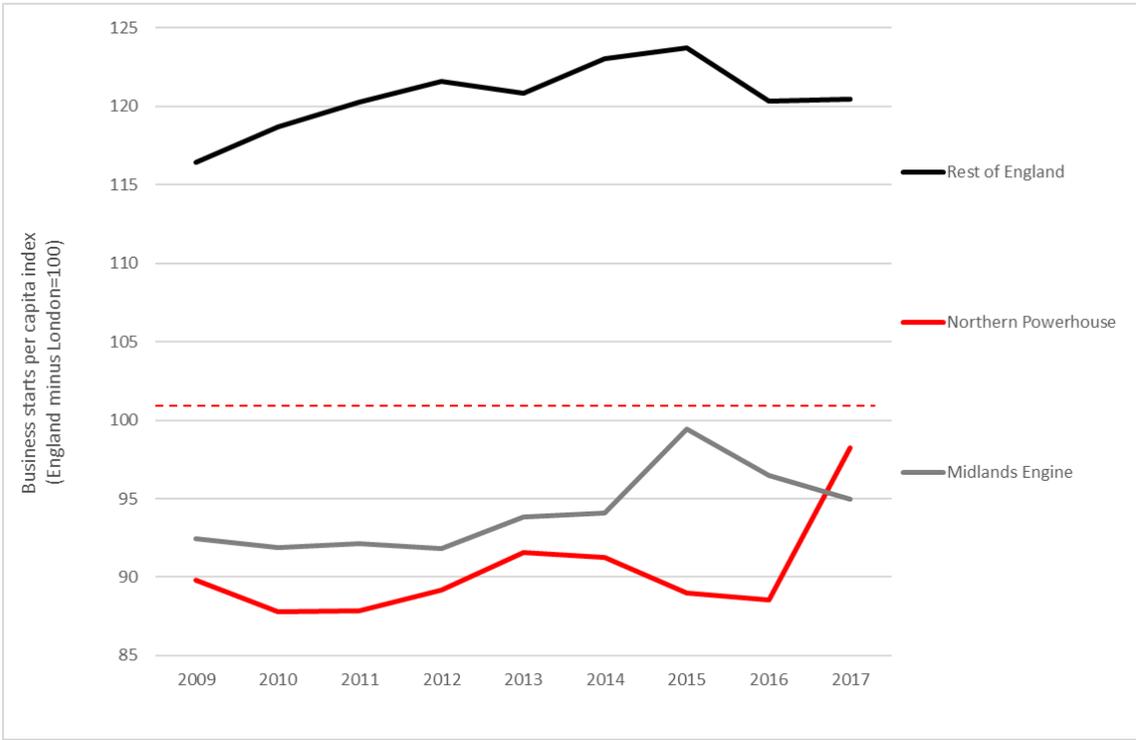


Investment: The gap narrowed in the first half of the 20s but increased again after 2006 and then has been narrowing gradually in recent years



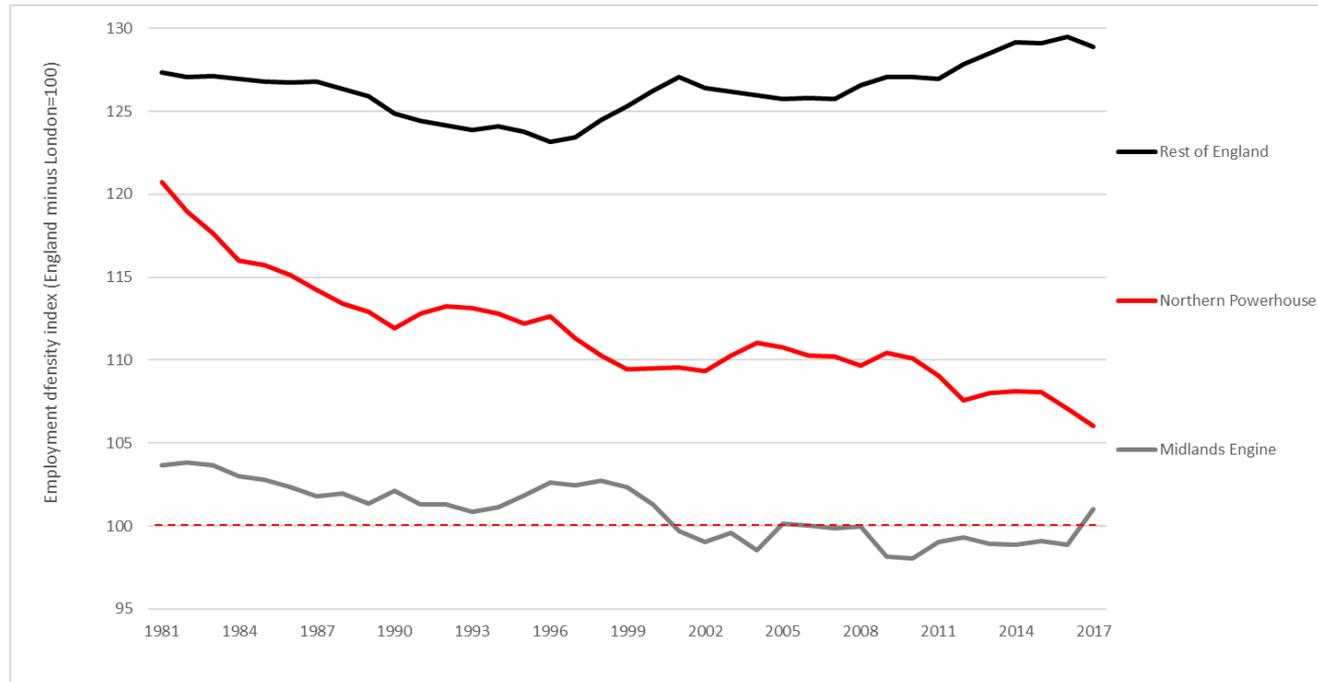
Source: Eurostat, Cambridge Econometrics calculations

Entrepreneurship: The performance gap in the Midlands started to widen from 2015

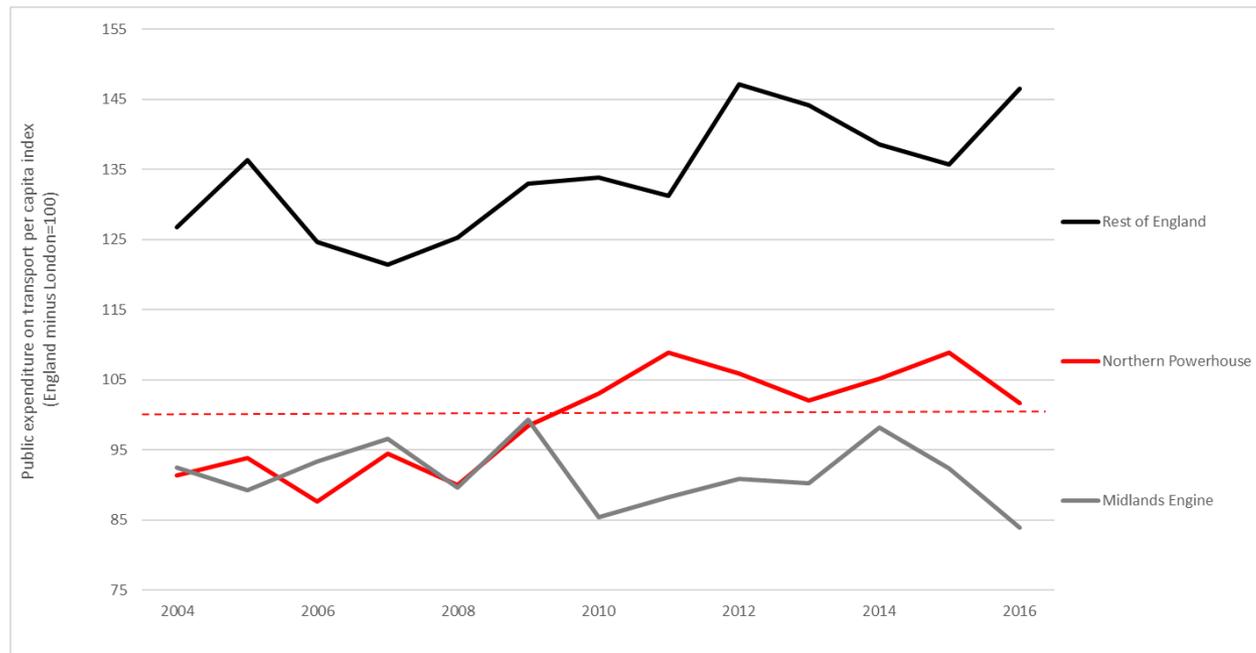


Source: ONS, Cambridge Econometrics calculations

Employment Density: Persistent gap with the Rest of England, but it remained almost zero since 2000 when London is excluded

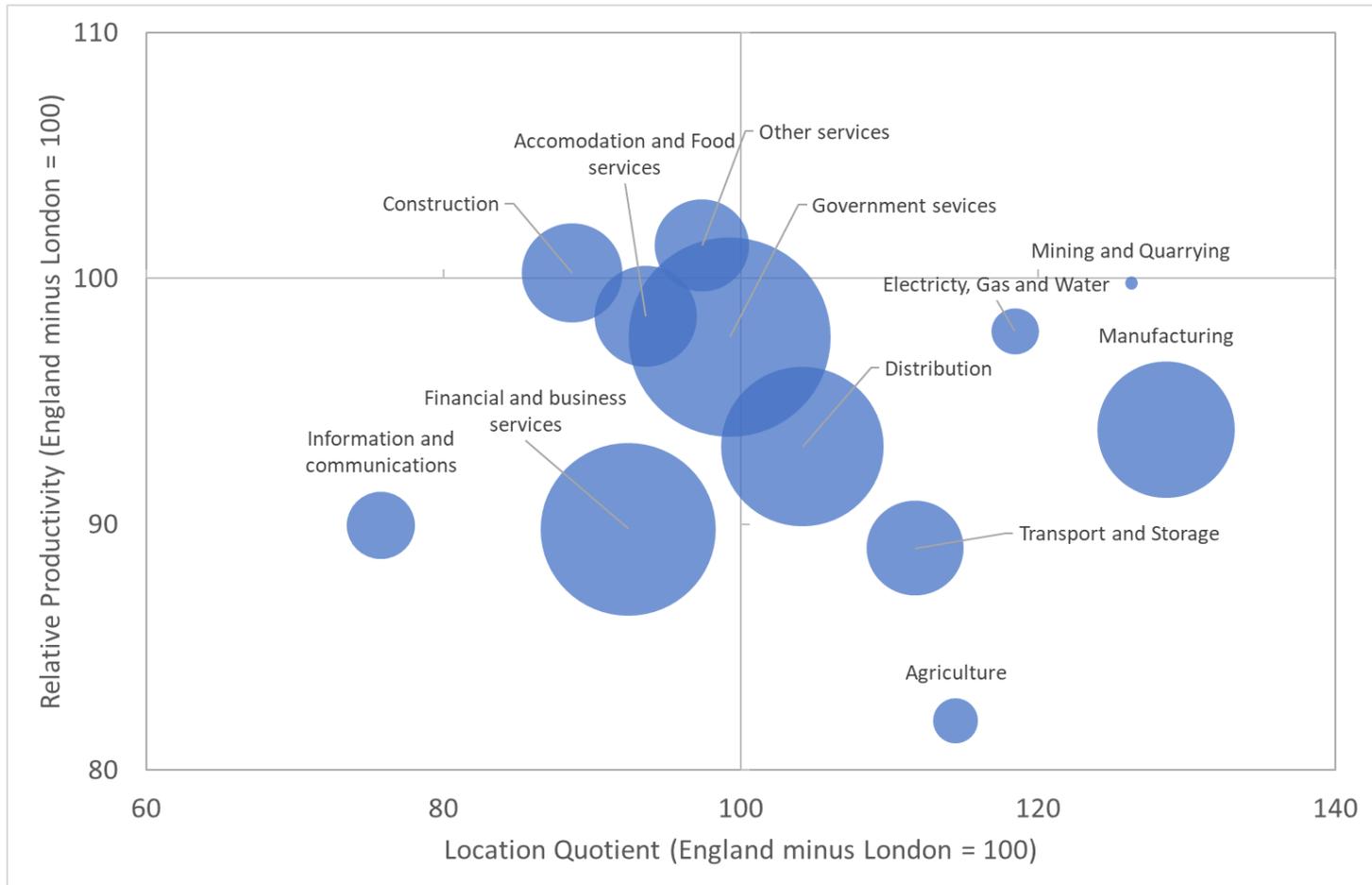


Transport Expenditure: Trend worsening of performance gap throughout the period with the Rest of England excluding London



Source: PESA, Cambridge Econometrics calculations

Sectoral Mix: Very few Midlands sectors have productivity levels above the Rest of England comparator



Source: Cambridge Econometrics, based on ONS and BRES

Note: 2017 data for employment and GVA; £2016 prices, bubble size represents sector employment share in the Midlands region

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