The Valleys - Economic Context

Summary

This note presents an initial analysis based mainly on statistics available at the level of local authorities and NUTS 3 areas. It includes a focus on statistics that cover geographic areas that do not coincide exactly with the focus of the taskforce. Further analysis will be presented in due course.

Valleys recent economic performance

- The Valleys area generally underperforms Wales as a whole across a range of economic indicators.

- This underperformance is generally modest in respect of average employment rates, and is limited for Bridgend and Neath Port Talbot.

- Population growth in the Valleys area has been generally lower than for Wales as a whole.

- Although included because it is a widely cited headline measure, GVA per head is a highly misleading indicator at regional and sub-regional geographic levels due particularly to commuting, but also to the fact that GVA reflects industrial and demographic structure. This makes it difficult to interpret trends.

- With these major caveats, in respect of GVA per head, both Wales as a whole and the Valleys area have broadly kept pace with UK as whole, with some indication of a relative improvement in Valleys performance over the period since 2000. The Gwent Valleys do not show this relative improvement.

- GVA per hour worked is a broad indicator of labour productivity, and since hours worked are measured on a workplace basis, the measure is not distorted by commuting in the same way as GVA per head. The Valleys areas perform reasonably well on this indictor, but this probably partly reflects industrial composition and hence not reflected in incomes received by residents.

- Across the UK as a whole, dependence on manufacturing has been associated with relatively slow growth, and this pattern is also seen in Wales, with the Gwent area, and the Gwent Valleys in particular, showing weakness.

- The relative underperformance of Wales (and West Wales and the Valleys) compared to the EU over the period since 2004 reflects a UK-wide trend rather

than anything specific to Wales. In fact, West Wales and Valleys has seen a relative improvement compared to both Wales as a whole and the UK.

- Gross domestic household income (GDHI) per head is probably the best available single indicator of material living standards. In contrast to GDP per head, the relative performance of the Valleys has fallen since around 2005, with Bridgend and Neath Port Talbot, and the Gwent Valleys, showing a longer run trend decline.

- Notwithstanding the intervening recession, there have been large increases in employment rates across the Valleys areas, with the largest increases have generally been in areas which had the lowest initial rates. The increases have been driven by lower levels of inactivity (rather than lower unemployment).

- The causes are not fully understood, but appear to be associated with an improving skills profile for the population (and increasing employment of females and in part-time work).

- In contrast to employment, there have been falls in (relative) wages across much of the Valleys (and for Wales as a whole).

Regional context

- There are high rates of net commuting (i.e. the excess of outflows over inflows) for most Valley areas, and generally increasing over time.

- The Cardiff city region (which encompasses all of the Valleys areas apart from Neath Port Talbot) has lower levels of commuting by public transport than broadly equivalent areas with established “Metro” systems. This disparity is accounted for more by low bus use than low use of rail/light rail.

- Low public transport / high private transport use in the Cardiff city region may reflect economic geography (as proxied by population density).

- This may indicate the limited scope for improving connectivity for commuting purposes from the **upper** Valleys to Cardiff and the coast.

Evidence on factors shaping economic performance

- Employment rates for individuals are much more strongly linked to their level of qualification (and also to their disability status) than to their location.

- There is an extra employment “penalty” for those living in the upper Valleys, but this is relatively modest and affects mostly those with lower qualifications (and/or people with disabilities). This reflects the pattern across the UK where those with lower skill levels are more likely to be employed when the highly skilled form a relatively large share of the population (probably because of the creation of local service sector jobs as result of high spending by residents).

- As noted above, productivity and pay levels (but not the growth of either) are linked to “agglomeration” or “economic mass”; Wales has a relatively small proportion of its population in centres with high economic mass.

- There is very limited well-established evidence on factors consistently linked to economic performance at the regional level.

- The main policy implications of the best evidence:

    - addressing low skills is important not just for individual people, but also for the prosperity of regions as a whole.

    - well-targeted transport links can also help…..but it is not a case of “build it and they will come; provision should address latent demand.

The Valleys - Economic Context

Introduction

- This note presents an **initial** analysis based mainly on statistics available at the level of local authorities and NUTS 3 areas. Local authority data has been used where available; some economic data is only available at NUTS3 level, and in some case local authority data has been aggregated to this level to provide comparability.

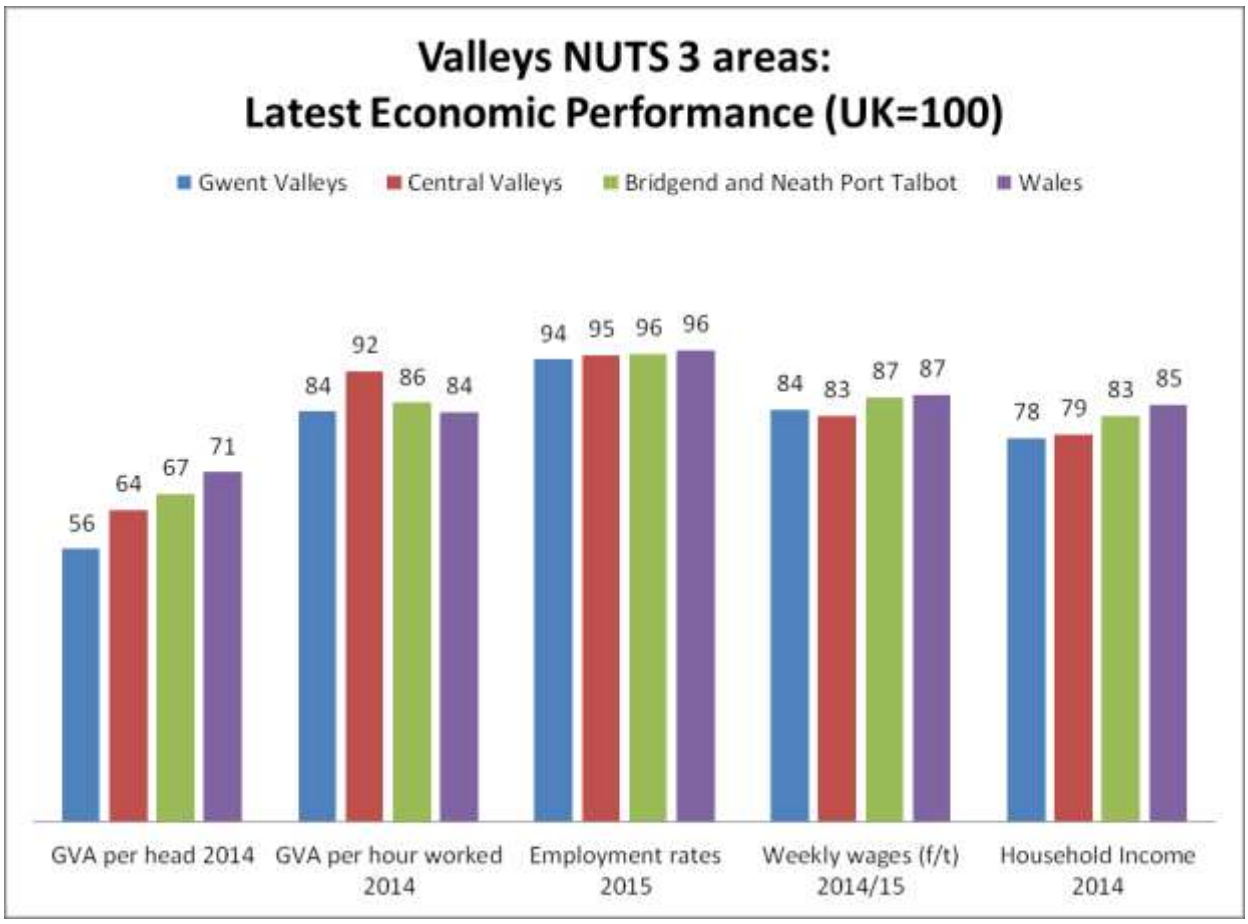
- Further analysis, drawing on bespoke geographies, can be commissioned as required. In general, economic conditions are of course more negative in much of the upper Valleys, particularly Blaenau Gwent. This picture is not fully revealed by the analysis in this note.

- The core Valleys area on this basis is highlighted in red in the table, with the area included as part of the wider Valleys area shown in yellow.

- Statistics are sourced from Welsh Government (StatsWales) unless otherwise stated.

Local authorities	**NUTS3 areas**	**City regions**
Swansea	Swansea	Swansea
Neath Port Talbot	Bridgend and Neath Port Talbot	
Bridgend		Cardiff
Rhondda Cynon Taff	Central Valleys	
Merthyr Tydfil		
Caerphilly	Gwent Valleys	
Blaenau Gwent		
Torfaen		
Vale of Glamorgan	Cardiff and Vale	
Cardiff		
Newport	Monmouthshire and Newport	
Monmouthshire		

Section 1: current economic performance and demographic trends

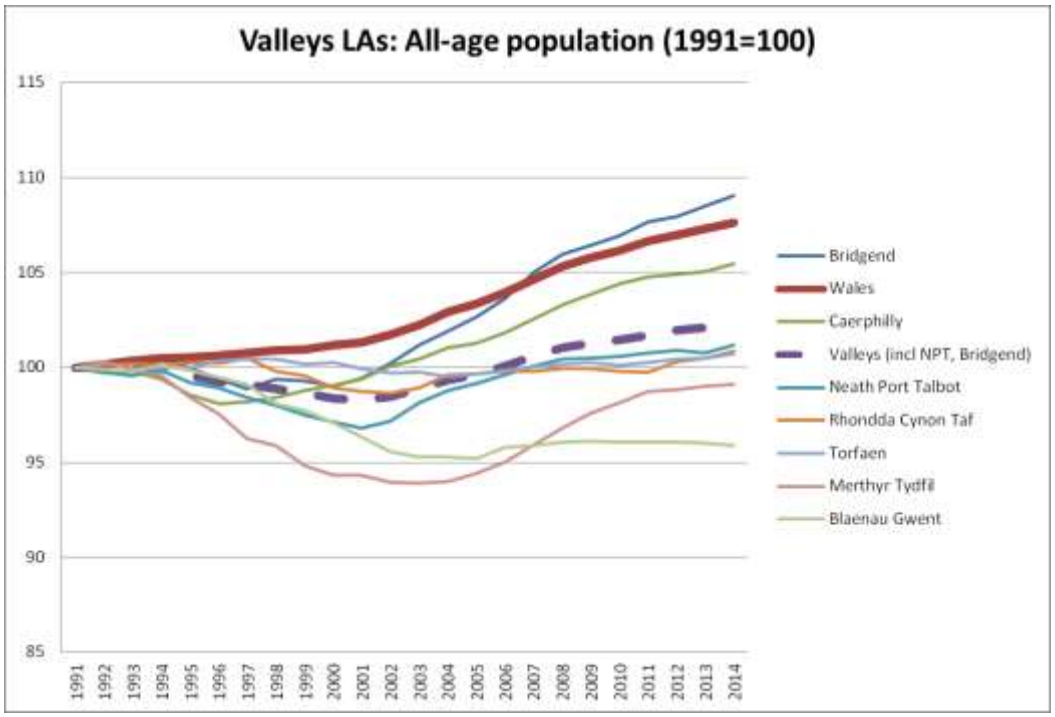


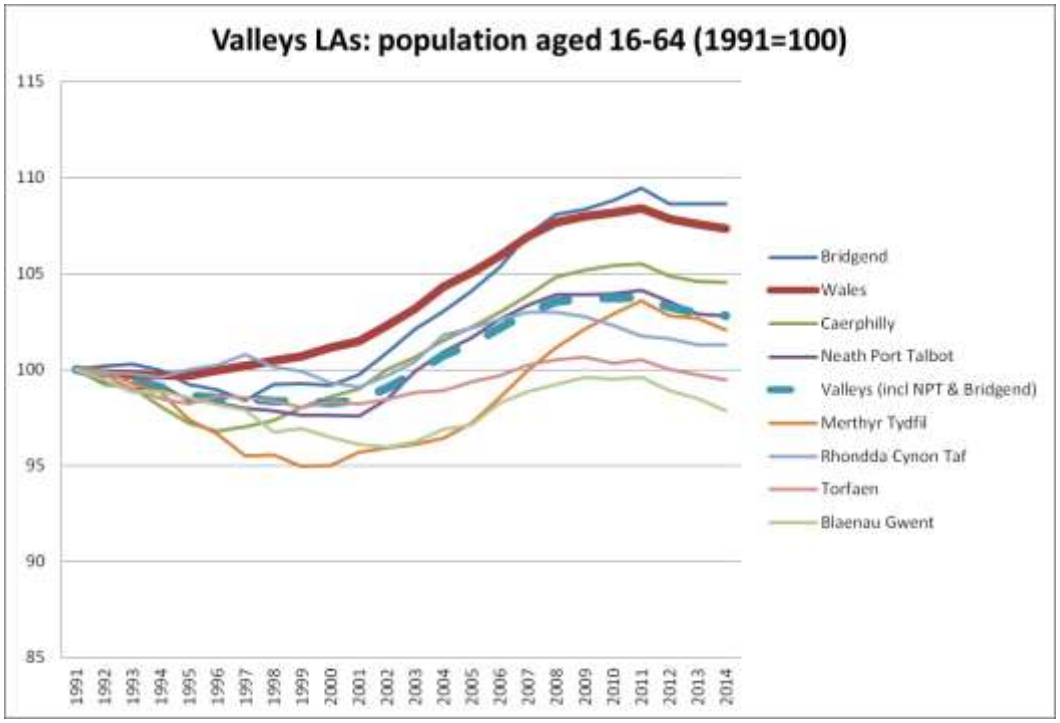
Main messages:

- The Valleys area generally underperforms Wales as a whole across a range of economic indicators.

- This underperformance is generally modest in respect of **average** employment rates, and is limited for Bridgend and Neath Port Talbot.

Trends in total population and working age population

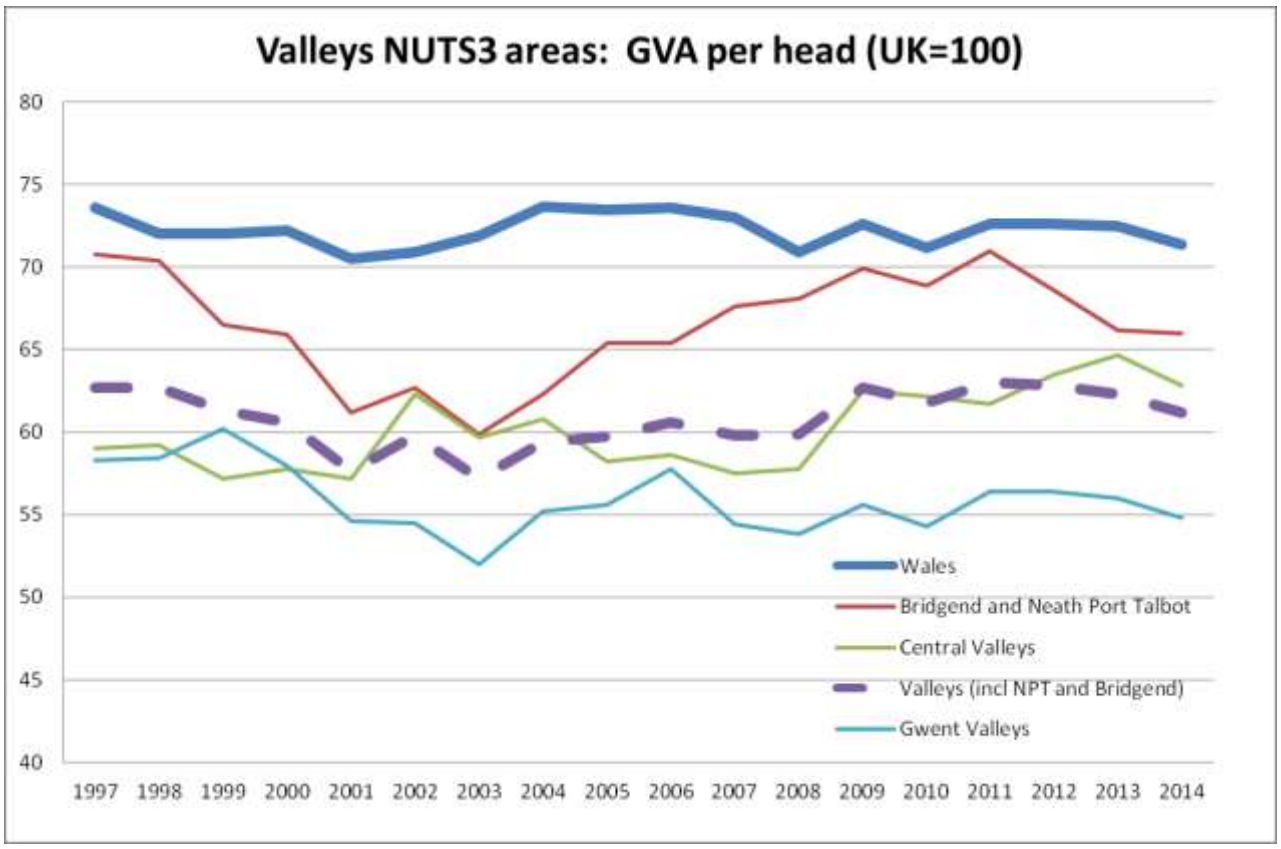




Main messages:

- The recent decline in the working age population reflects population ageing across both the Valleys and Wales as a whole
- Population growth in the Valleys area has been generally lower than for Wales as a whole.
- Bridgend is an exception; growth in Blaenau Gwent (and Torfaen for working age population) has been particularly weak; Merthyr shows recovery since around 2005.

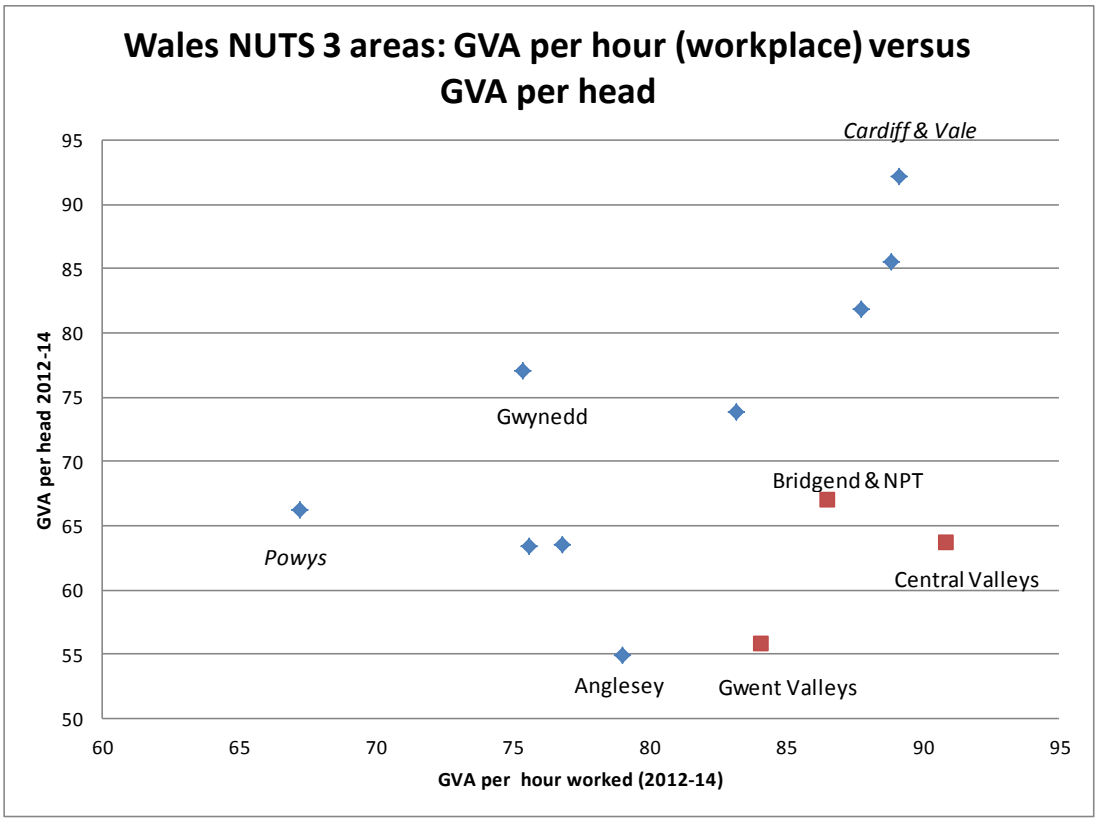
Section 2: trends in economic performance



Main messages:

- Although included because it is a widely cited headline measure, GVA per head is a highly misleading indicator at regional and sub-regional geographic levels due particularly to commuting, but also to the fact that GVA reflects industrial and demographic structure. (GVA is workplace based, population is resident based, and GVA measures the gross value of output without making adjustments for capital consumption or the return on capital.) This makes it difficult to interpret trends.

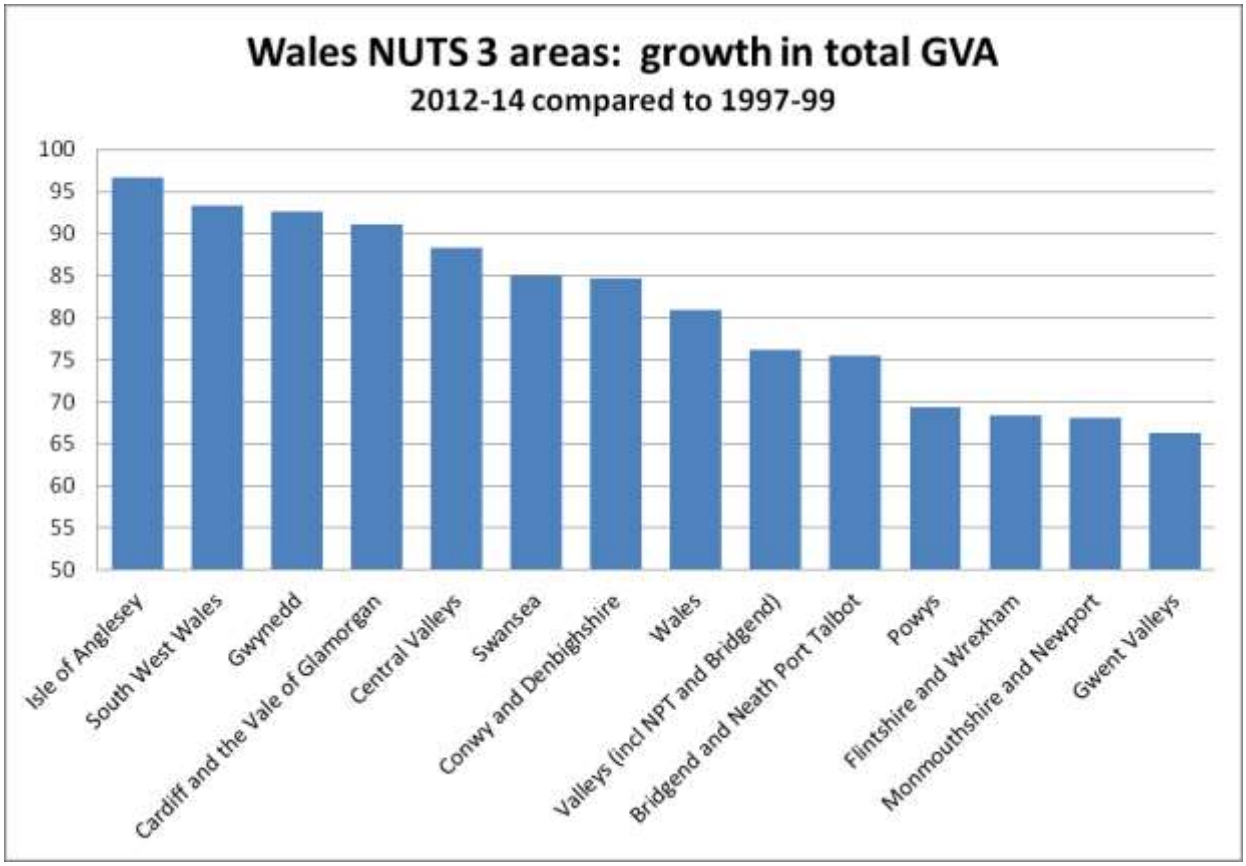
- With these major caveats, both Wales as a whole and the Valleys area have broadly kept pace with UK as whole over the period, with some indication of a relative improvement in Valleys performance over the period since 2000. The Gwent Valleys do not show this relative improvement, and the performance of Bridgend and Neath Port Talbot **may** reflect the changing fortunes of the steel industry.



Main messages:

- GVA per hour worked is a broad indicator of labour productivity, and since hours worked are measured on a workplace basis, the measure is not distorted by commuting in the same way as GVA per head.

- The Valleys areas perform reasonably well on this indictor, but this probably partly reflects industrial composition (as noted above, GVA is not adjusted for capital consumption or the return on capital, which tend to be higher in the production sector which is disproportionately represented in the Valleys – see below).



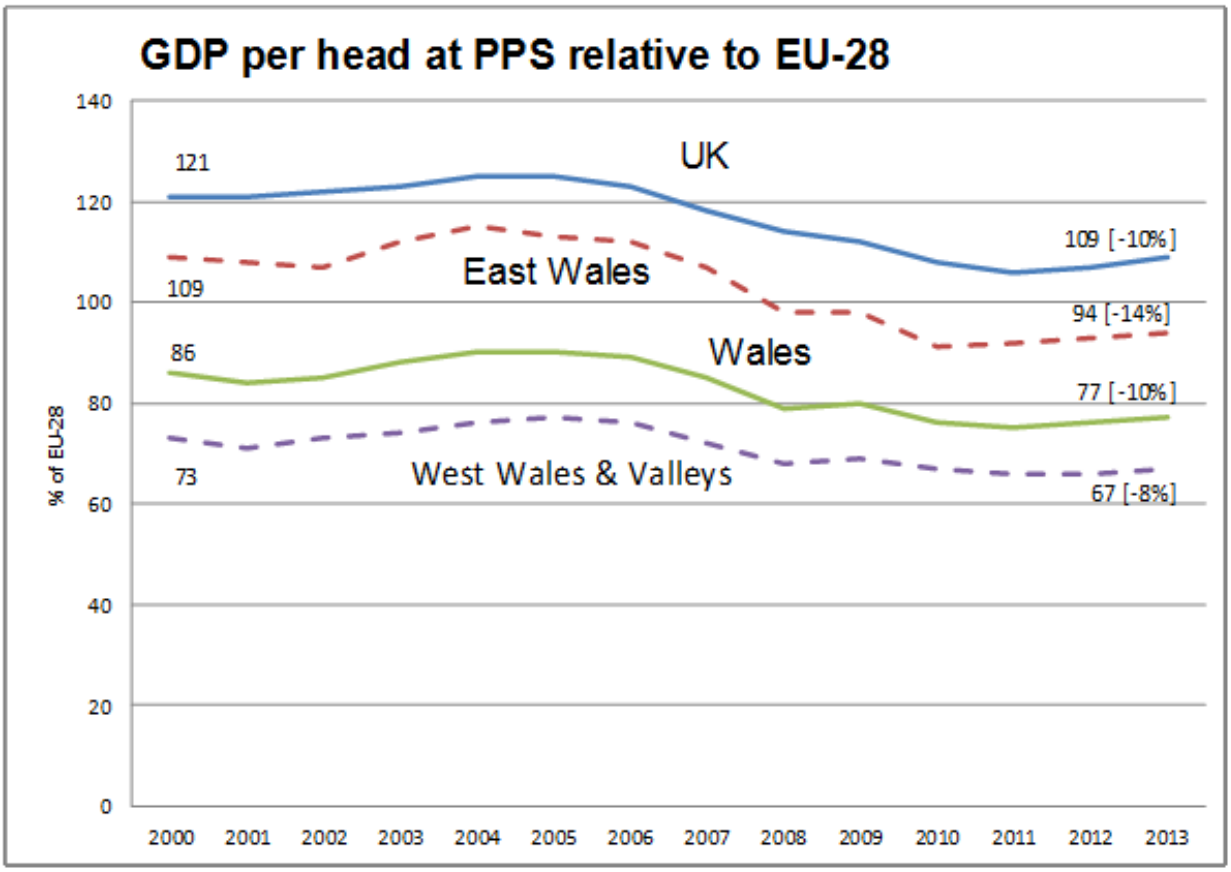
Main messages

- The chart shows the percentage growth in total GVA in current prices (i.e. it is shown as an aggregate figure, not on a per head basis).

- This provides a broad indication of relative rates of economic growth across Wales.

- Across the UK as a whole, dependence on manufacturing has been associated with relatively slow growth, and this pattern is also seen in Wales, with the Gwent area, and the Gwent Valleys in particular, showing weakness.

- These patterns reflect multiple effects, so it is not possible to identify any single cause for the performance of an area.

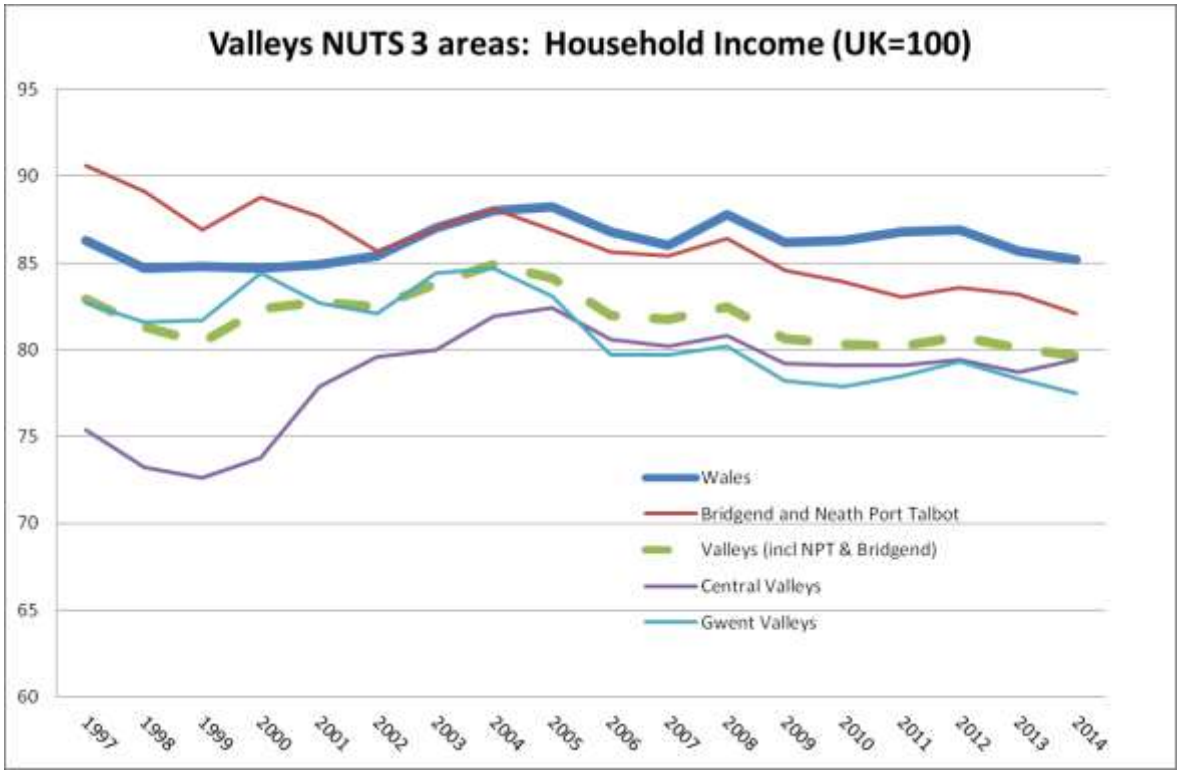


Source: Eurostat

Main messages:

- The relative underperformance of Wales (and West Wales and the Valleys) compared to the EU over the period since 2004 reflects a UK-wide trend rather than anything specific to Wales (in fact, West Wales and Valleys has seen a relative improvement compared to both Wales as a whole and the UK).

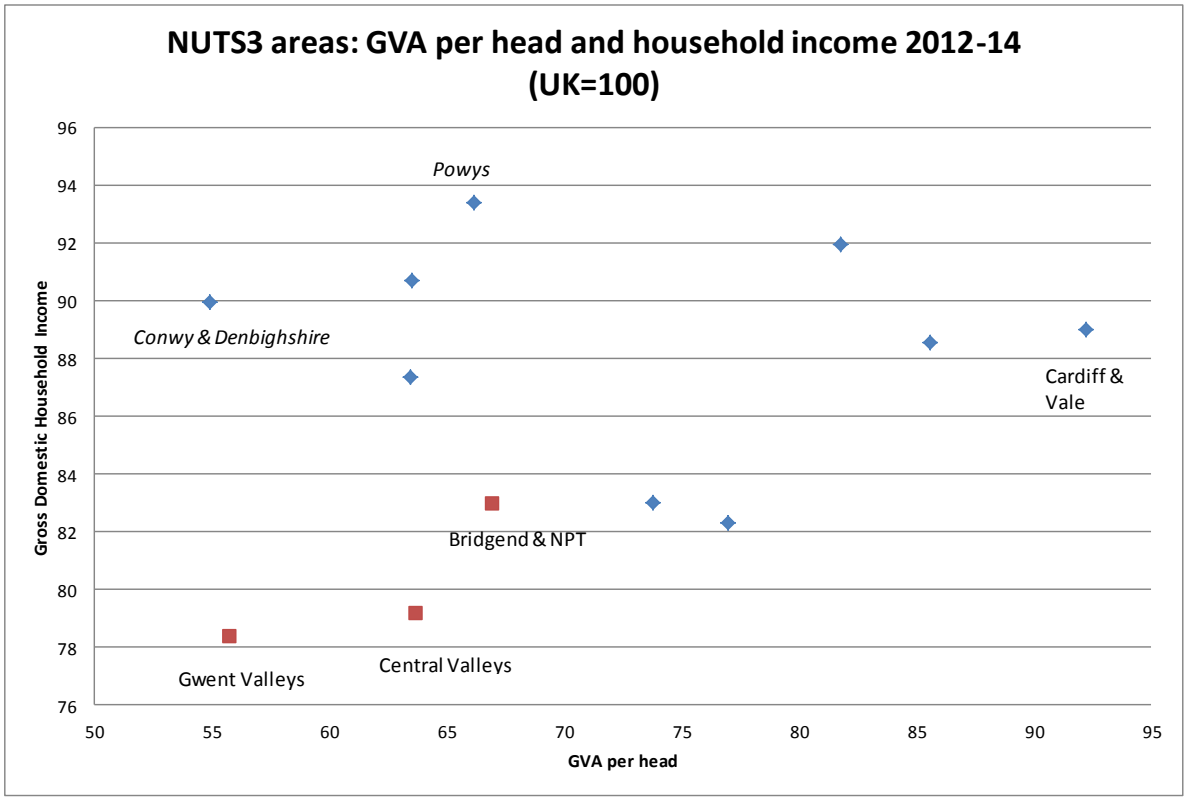
- This UK trend has been driven by a larger increase in the cost of living in the UK than in the rest of the EU, reducing the real value of UK output.



Main messages:

- The chart shows relative gross domestic household income (GDHI) per head. This is the income people receive after tax and other deductions and after receiving pension payments, tax credits and other benefits (it does not include public services received in kind).

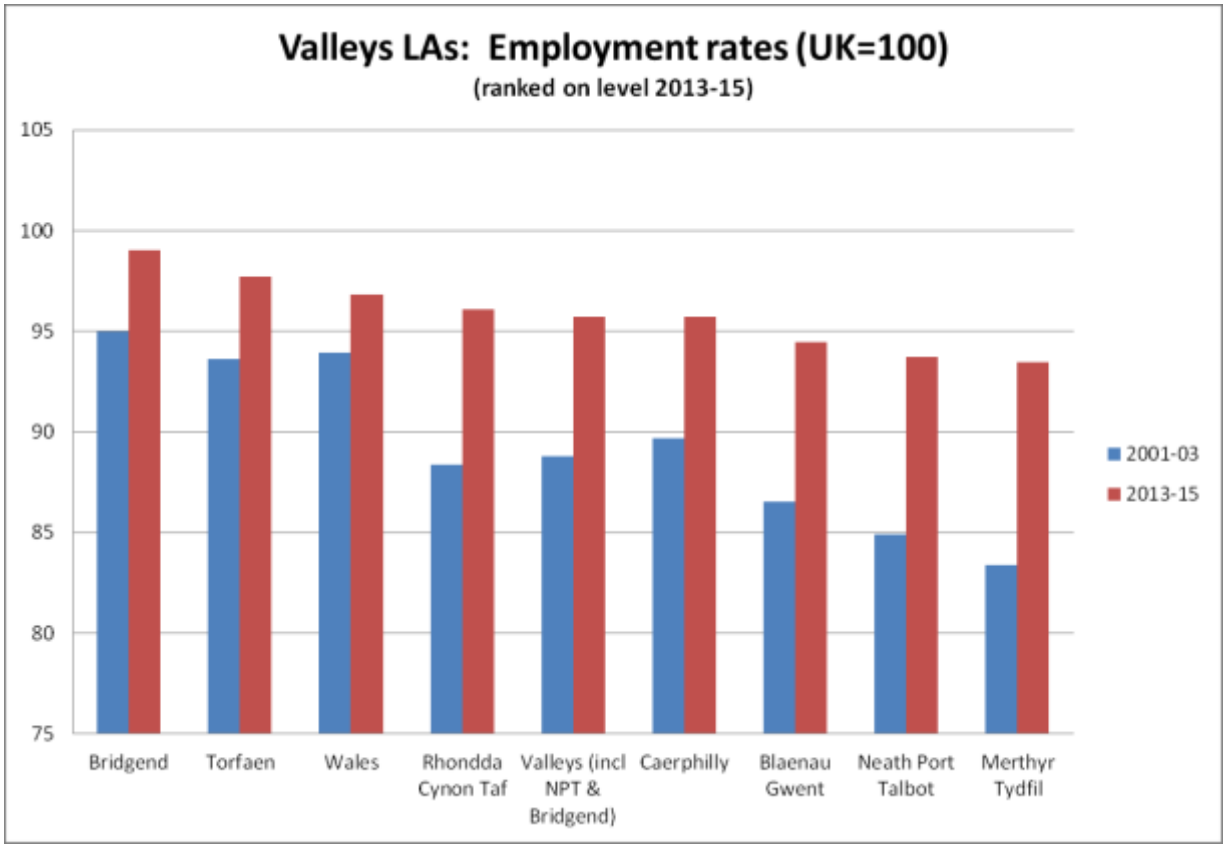
- GDHI is probably the best available single indicator of material living standards. In contrast to GDP per head, the relative performance of the Valleys has fallen since around 2005, with Bridgend and Neath Port Talbot, and the Gwent Valleys, showing a longer run trend decline. The Central Valleys showed a marked relative improvement over there first five years of the new millennium.



Main messages:

- There is little relationship between GVA per head and living standards (as measured by household income). Powys has the highest level of household income in Wales.

- This is unsurprising: there is only a limited relationship between GVA per head and residents' income (this is true even for working residents - for the reasons set out above).



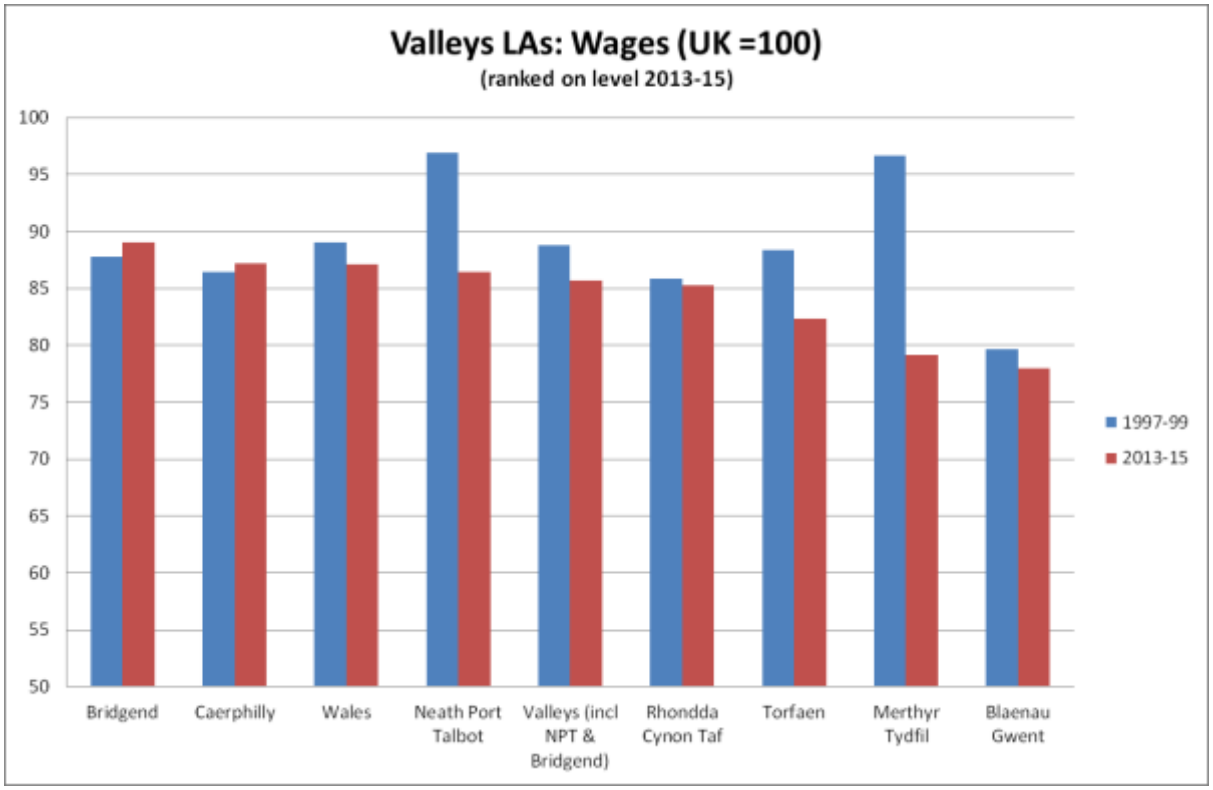
Main messages:

- Notwithstanding the intervening recession, there have been large increases in employment rates across the Valleys areas.

- The largest increases have generally been in areas which had the lowest initial rates.

- The increases have been driven by lower levels of inactivity (rather than lower unemployment).

- The causes are not fully understood, but appear to be associated with an improving skills profile for the population and increasing employment of females and in part-time work.



Main messages:

- In contrast to employment, there have been falls in (relative) wages across much of the Valleys (and for Wales as a whole).

- This is not entirely surprising in the context of increasing employment (where the least productive are progressively incorporated into the employed workforce), and the outperformance of London and the South East, which has driven up the UK "benchmark".

Section 3: factors shaping economic performance

A review of the evidence on the drivers of regional economic growth across developed countries has recently been undertaken by the OECD[1]. This study drew out two factors as being of pre-eminent importance.

First, the study found that human capital (particularly low skills) was important everywhere:

"For all types of region, human capital appears to be critical, though its relative importance varies according to the level of development. Overall, ***reducing the proportion of people in a region with very low skills*** *seems to matter more than increasing the share with very high skill levels."*

In other words, skills are a key factor not just in the economic outcomes facing individuals, but also in the economic performance of the region in which they live.

Second, connective infrastructure was found to be important for lagging regions (though less so at for the best performing regions):

"In sum, the differences between fast- and slow-growing regions vary significantly across levels of development. Among the less developed regions, those growing faster than the national average appear to have ***more infrastructure, better human capital and higher density of activity*** *relative to the underperforming group. As regions move into higher levels of development,* ***infrastructure investment*** *becomes relatively more significant, as does labour force activation. [However] in the most advanced regions, infrastructure density is not a key factor…….Advanced regions would tend, on the whole, to have good connective infrastructure already."*

A factor potentially of particular significance for the Valleys and SE Wales is "density of activity". There is an extensive body of evidence demonstrating the economic advantages of a particular form of density – economic mass, or "agglomeration". This has been summarised in a recent review for the UK Department for Transport[2]:

"Studies consistently find a positive relationship [between economic mass and productivity]. Furthermore, the relationship is quantitatively important……An authoritative survey of the literature finds that 'In sum, doubling city size seems to increase productivity by an amount that ranges from roughly 3-8%' (Rosenthal and Strange 2004, p2133). This means that the elasticity of productivity with respect to city size is in the range 0.05- 0.11….. suggesting that productivity in a city of 5 million is between 12% and 26% higher than in a city of ½ million."

[1] Promoting Growth in All Regions. Lessons from Across the OECD (2012). www.oecd.org/site/govrdpc/50138839.pdf

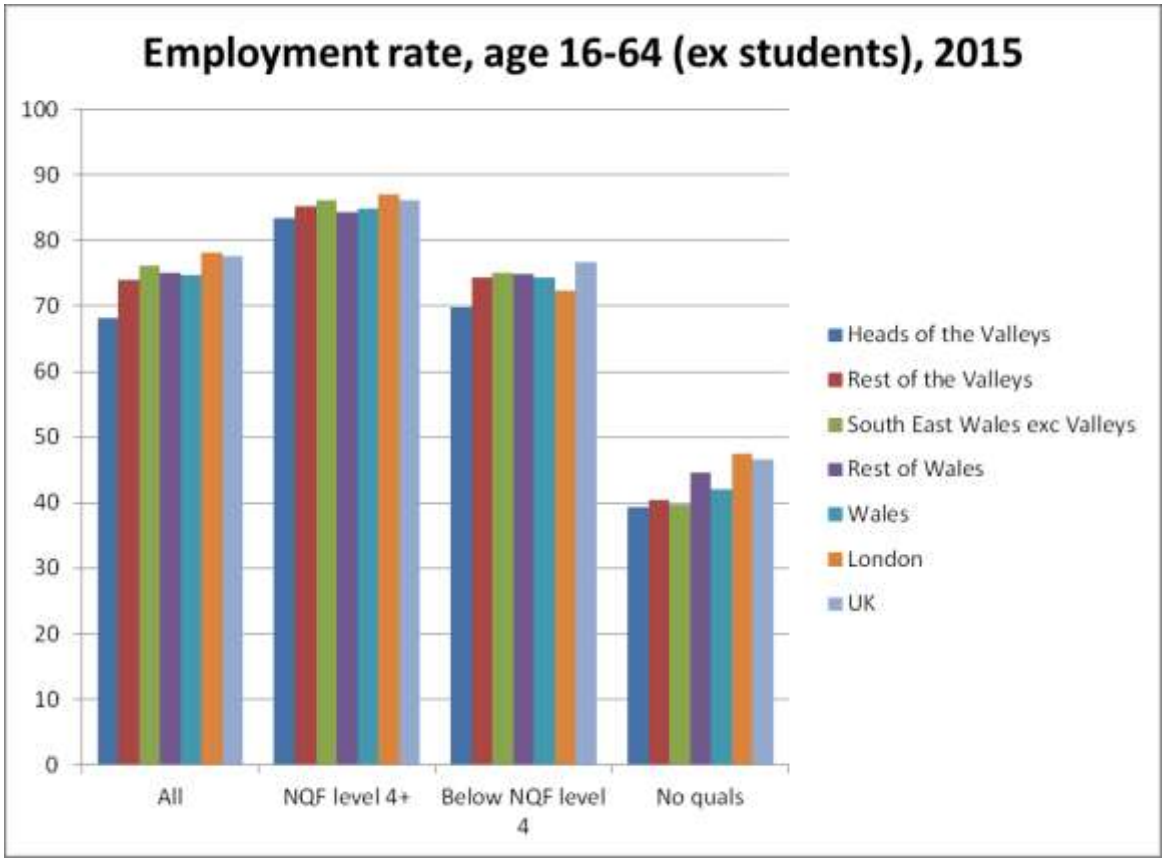
[2] Transport investment and economic performance: Implications for project appraisal Venables, Laird, Overman (DfT – 2014): https://www.gov.uk/government/uploads/…/TIEP_Report.pdf

Main messages:

- There is very limited well-established evidence on factors consistently linked to economic success at the regional level (see also below).

- Policy implications: addressing low skills is important not just for individual people, but also for prosperity for regions as a whole.

- Properly targeted transport links can also help…..but it is not a case of "build it and they will come; provision should address latent demand.

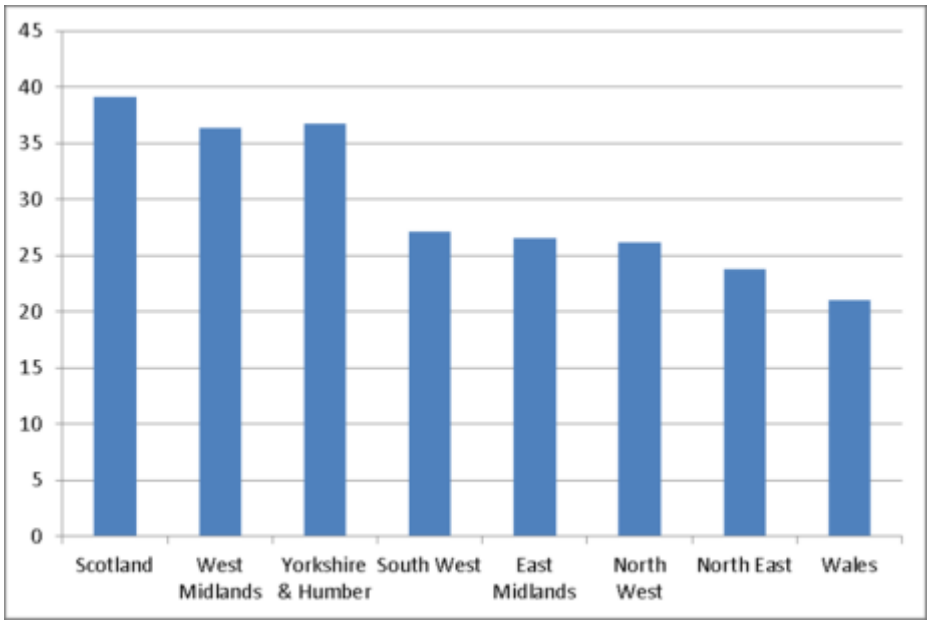


Source: Welsh Government analysis

Main messages:

- Employment rates for individuals are much more strongly linked to their level of qualification than to their location. (But note of course that many people live and work in different areas.)
- There is an extra employment "penalty" for those living in the upper Valleys, but this is relatively modest and affects mostly those with lower qualifications.
- This reflects the pattern across the UK where those with lower skill levels are more likely to be employed when the highly skilled form a relatively large share of the population (probably because of the creation of local service sector jobs as result of high spending by residents).

Percentage of population in settlements over 125,000



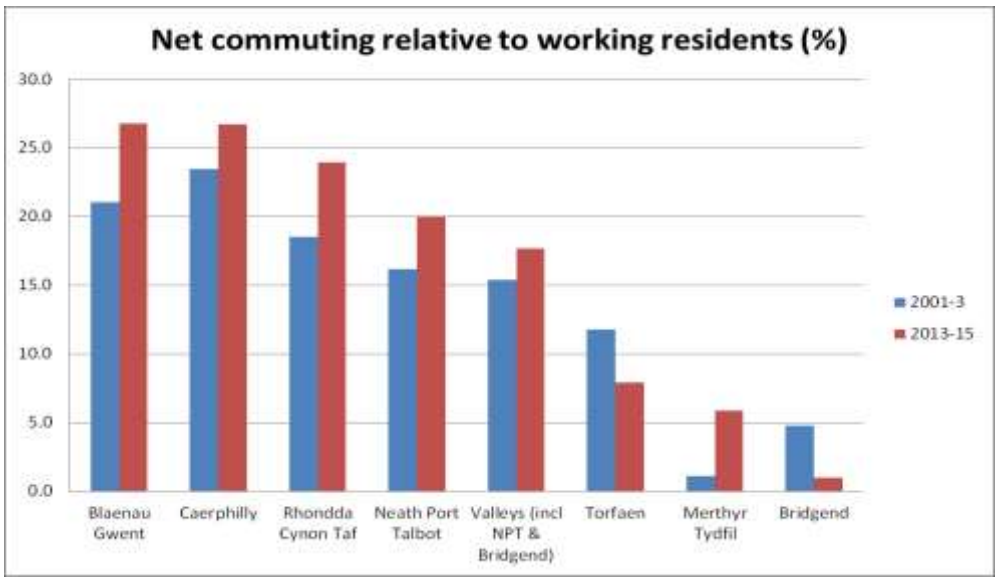
Source: ONS

Main messages:

- As noted above, productivity and pay levels (but not the growth of either) are linked to “agglomeration” or “economic mass”; Wales has a relatively small proportion of its population in centres with high economic mass.

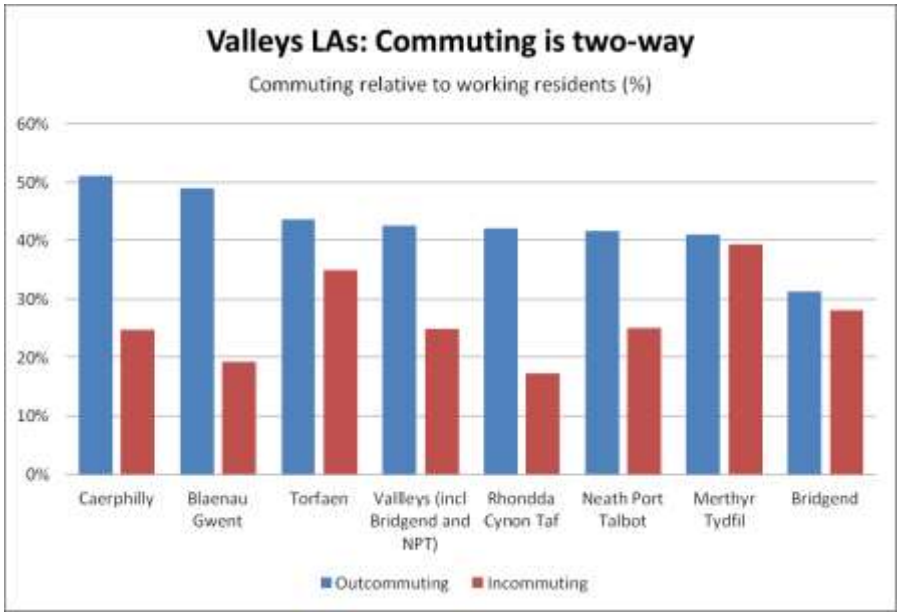
Section 4: further context

a. Commuting and transport



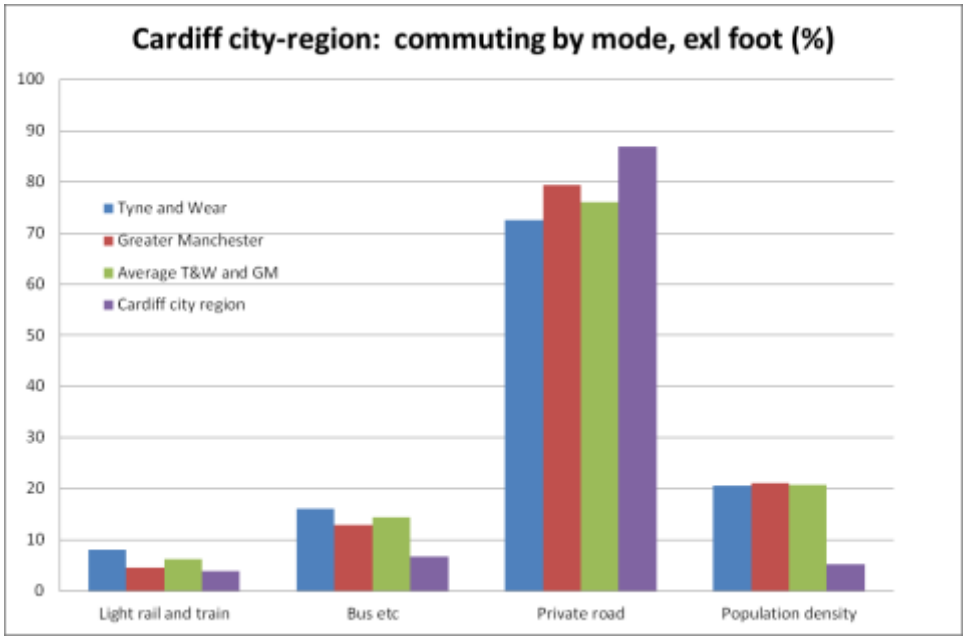
Main messages:

- High rates of net commuting (i.e. the excess of outflows over inflows) for most Valley areas, and generally increasing over time.



Main messages:

- Although the Valleys have net out commuting, the flows are bi-directional, with significant inflows that partially offset the outflows.



Source: Census (2011)

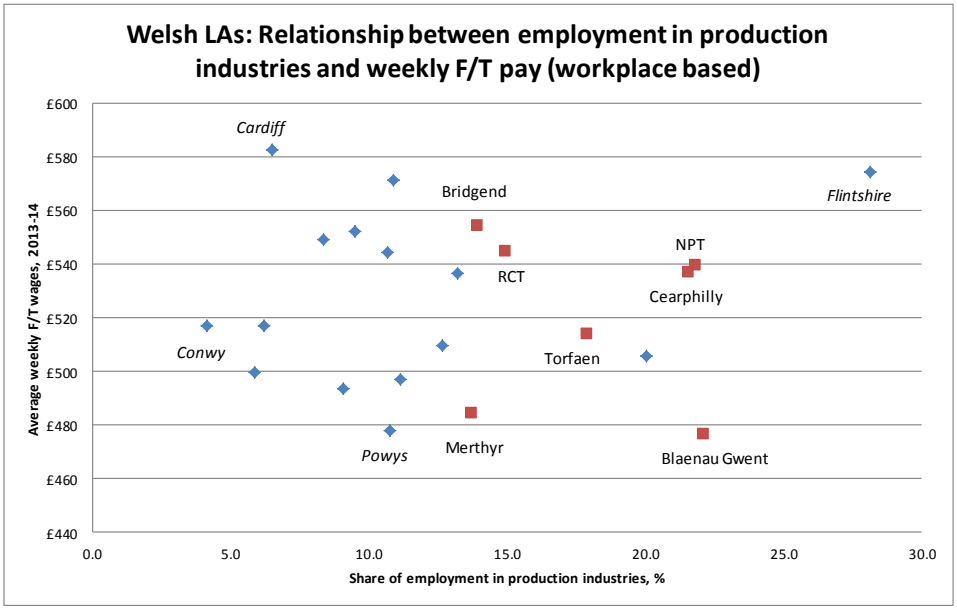
Main messages:

- The Cardiff city region (which encompasses all of the Valleys areas apart from Neath Port Talbot) has lower levels of commuting by public transport than broadly equivalent areas with established “Metro” systems.

- This disparity is accounted for more by low bus use than low use of rail/light rail.

- Low public transport / high private transport use in the Cardiff city region may reflect economic geography (as proxied by population density).

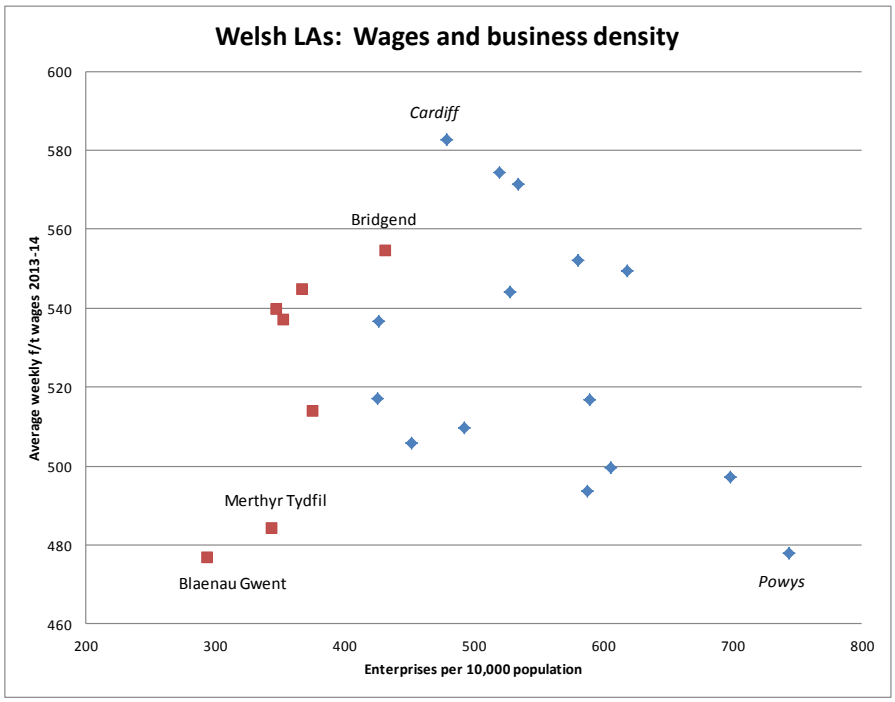
b. Industrial structure and employment



Main message:

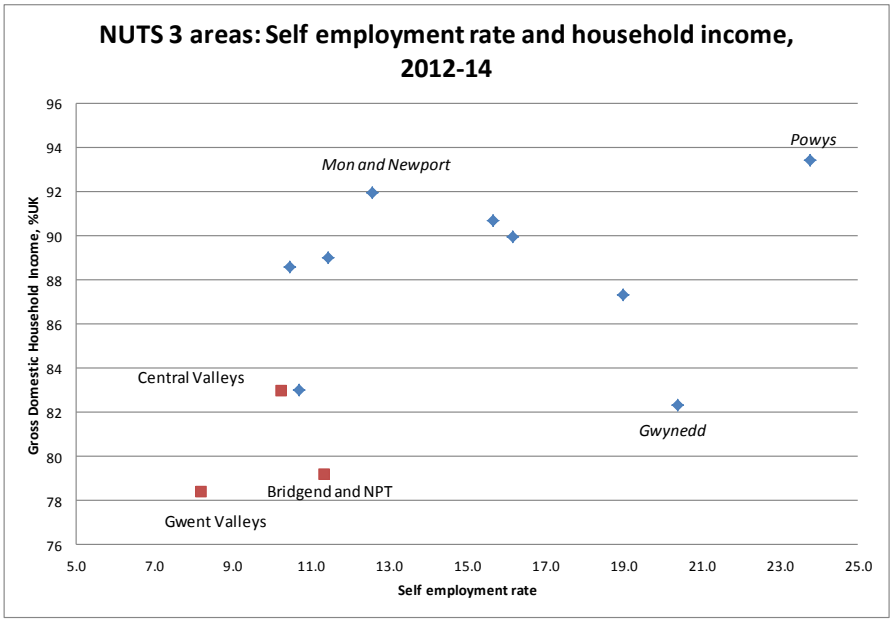
- The Valleys have relatively high employment in the production sector (which is mainly manufacturing but also extractive industries).

- There is no clear link between average pay and employment in the production sector.



Main message:

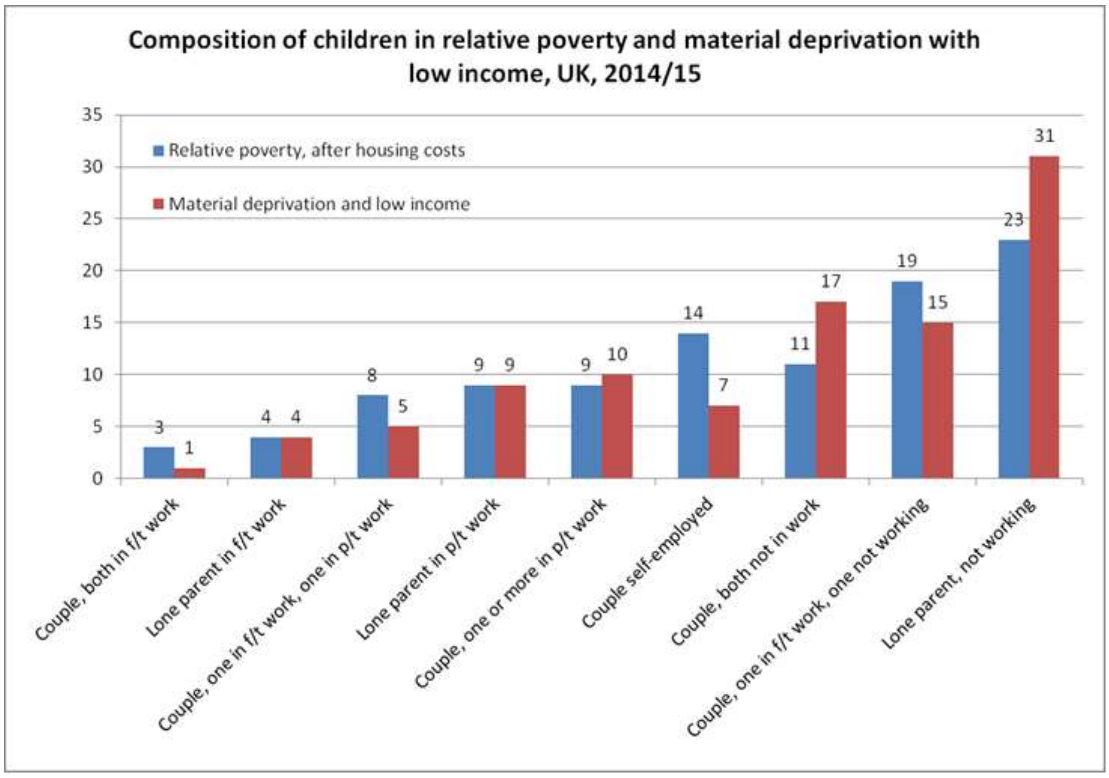
- Entrepreneurship (as proxied by business density) is low in the Valleys.
- There is no simple association between entrepreneurship (as proxied by business density) and wage levels.



Main message:

- Rates of self employment (another indicator of entrepreneurship) are low in the Valleys.
- There may be a weak relationship between the rate of self employment and household income, but the direction of causation is unclear.

c. Poverty, deprivation and employment



Source: DWP analysis

Main messages:

- Relative poverty is measured as the proportion of the population living in households with less than 60% of median UK household income at a point in time (and it therefore takes no account of the depth or persistence of poverty, both of which are associated with adverse outcomes). Material deprivation is measured by the lack of access to a basket of goods and services deemed essential for normal life and is associated with deep and persistent poverty.

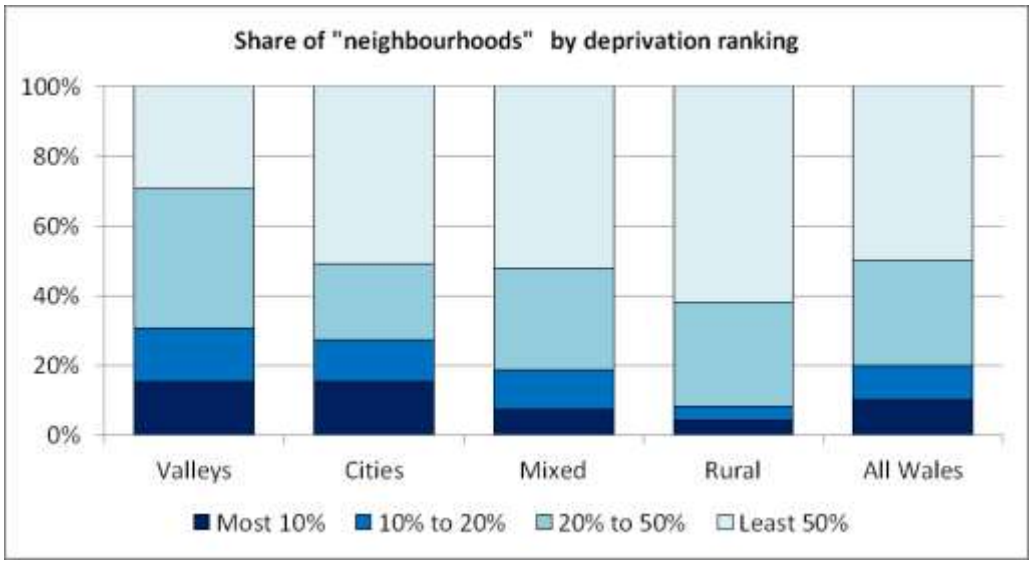
- The chart shows the proportion of children in poverty and experiencing material deprivation living in households with differing work status. Data is for the UK; data for Wales is not [yet] available.

- Material deprivation is more strongly linked to lack of employment than is relative poverty.

Source: WG analysis (ASHE)

Main messages:

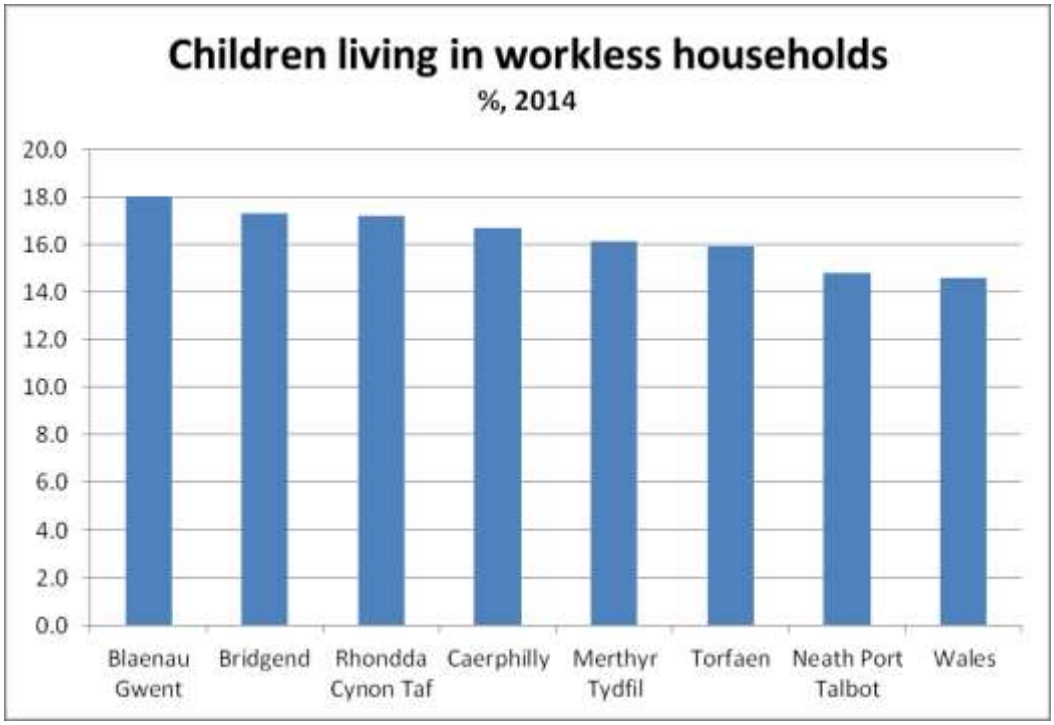
- The data shows a strong link between relative pay and qualifications within each region. (Data not yet available for Valleys.)



Source: WG analysis (WIMD)

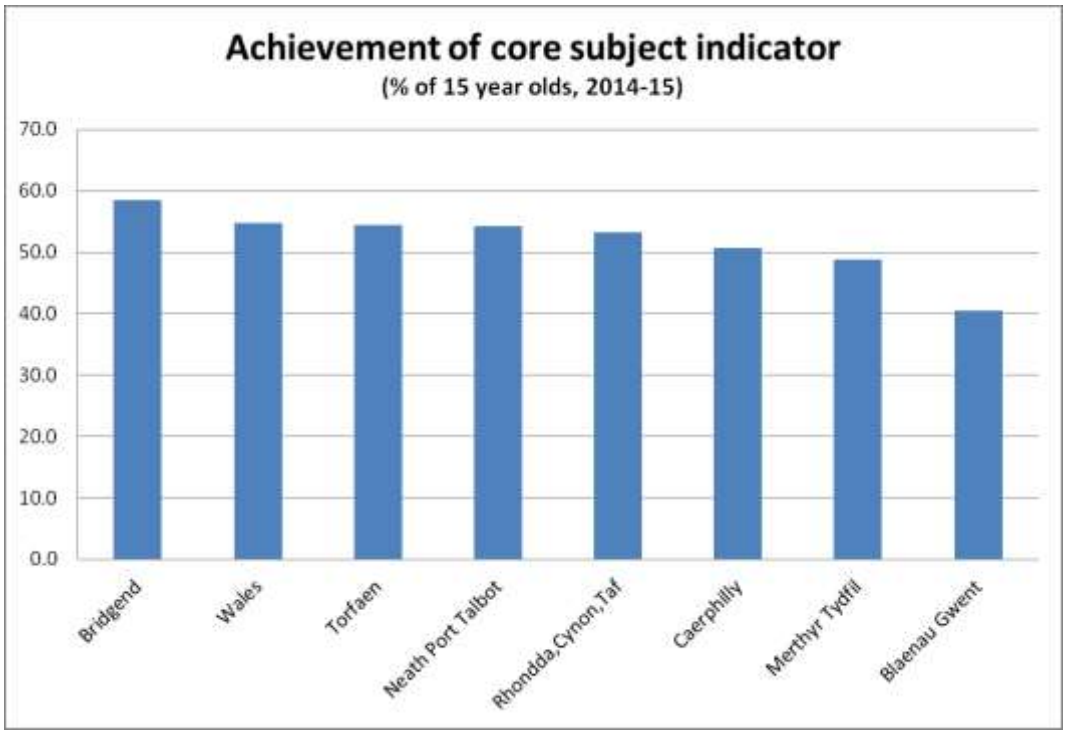
Main messages:

- The chart shows the share of neighbourhoods in each type of area within Wales by depth of deprivation (as measured by the Welsh Index of Multiple Deprivation.
- Deprived areas, and people, are found in all parts of Wales. While the Valleys contains fewer less-deprived areas and people than other parts of Wales, the less deprived still represent a significant share of the population. Welsh cities account for about the same proportion of deprived people and areas as the Valleys.
- Targeting on an area basis is an imperfect basis for reaching those in most need.



Main messages:

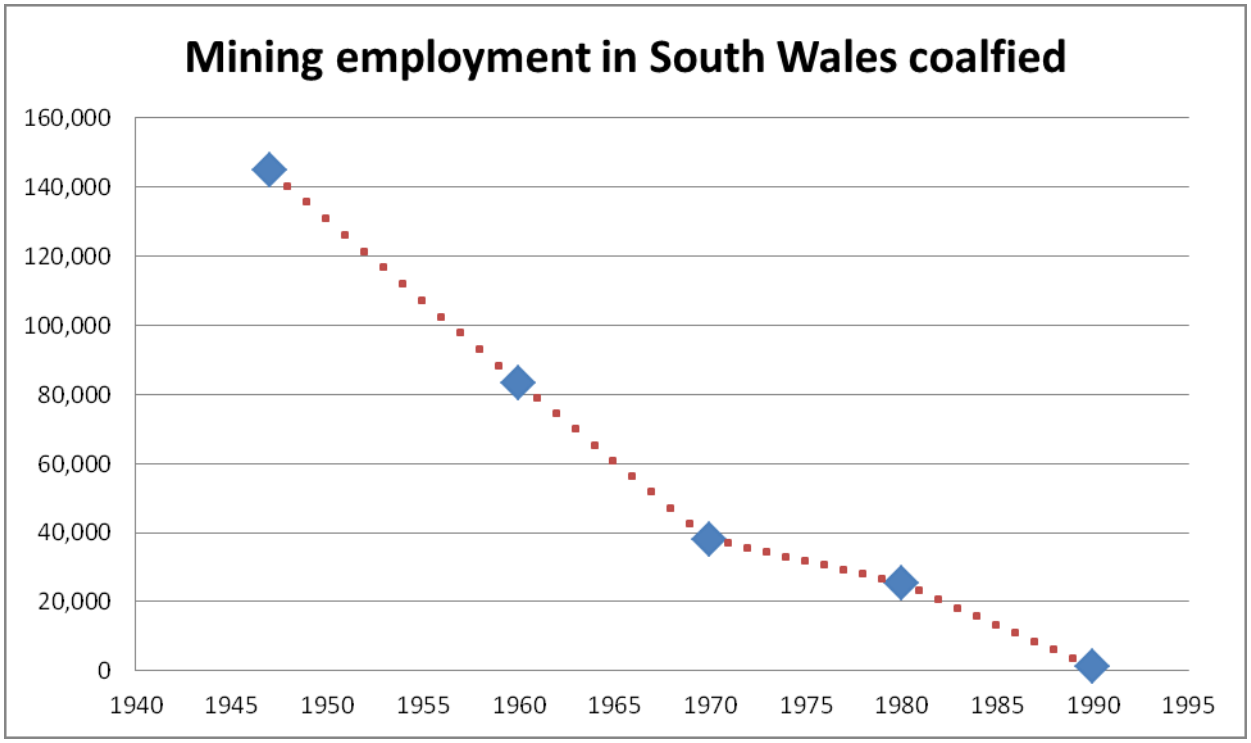
- Many Valley areas have a high proportion of children living in workless households; this is associated with adverse outcomes.



Main messages:

- Low achievement persists amongst children, particularly in the upper Valleys.

Annex



Source: "Coalfield regeneration: dealing with the consequences of industrial decline", Bennet et al, JRF, 2000

Main messages:

- Long run decline of employment in mining industry driven by growth in alternative sources of power and productivity improvements – reduction in rate of decline in 1970s attributed to oil crisis.

- Rate of decline in the 1980s was slower than in the decades prior to 1970.