An analysis of Devon's productivity performance

Report to Devon County Council

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SQW

Contents

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1. Introduction

1.1 The purpose of this document is to examine Devon's historic and projected future performance on various measures of economic output and productivity. The analysis is presented both in absolute terms and relative to the national average and the (old) South West region. Crucially it sheds light on why Devon's productivity is as it is, and what this means in terms of potential policy levers.

1.2 The analysis focuses on Devon[1] as a whole and three sub-regions within it:

- "**Exeter and the Heart of Devon**" – defined as the districts of Exeter, East Devon, Mid Devon and Teignbridge
- "**Northern Devon**" – defined as North Devon and Torridge
- "**South west Devon**" – defined as West Devon and South Hams.

1.3 In terms of data, this document relies heavily on the 2014 baseline projections for GVA and employment which have been generated by Cambridge Econometrics using its Local Economic Forecasting Model (LEFM). These are informed by national datasets, but they are modelled projections and their limitations need to be recognised. Additional data are drawn from the Annual Population Survey and Annual Survey of Hours and Earnings; these are survey-based sources and account should be taken of confidence intervals, etc.

1.4 The remainder of the document is structured as follows:

- **Chapter 2:** *An assessment of Devon's economic performance* – develops an overarching narrative for Devon in terms of GVA and productivity performance and unpicks this in terms of the local labour market
- **Chapter 3:** *Sectoral composition and links to productivity* – considers the sectoral composition of Devon's economy
- **Chapter 4:** *Key developments since 2011* – outlines whether the narrative developed as part of the 2012 Local Economic Assessment has changed
- **Chapter 5:** *A forward look* – provides an overview of the latest projections for economic growth and productivity
- **Chapter 6:** *Conclusions and policy implications* – considers the policy implications of the overarching economic performance narrative developed in previous chapters.

[1] Defined as the area administered by Devon County Council

2. Devon's economic performance

2.1 This Chapter examines the overall performance of Devon and its "sub-regions" on various measures of economic growth and labour productivity.

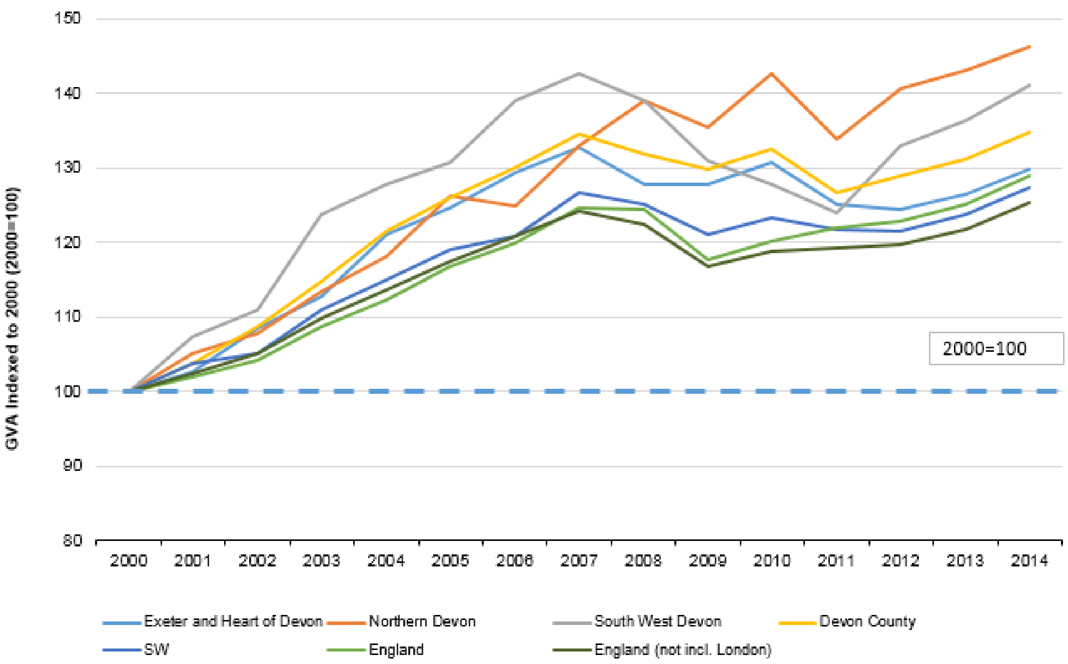
Headline economic performance

2.2 Total Gross Value Added (GVA) generated by the Devon economy in 2014 was £13.5bn (2010 prices), according to modelled estimates by Cambridge Econometrics[2]. This accounted for approximately 13% of total GVA generated in the South West. In 2000, it had accounted for 12%. Over the last decade or so, Devon's share of the South West economy has therefore grown.

2.3 In terms of economic growth, data suggest that Devon has performed strongly since the early 2000s. Devon's average annual growth rate (CAGR) in GVA between 2000 and 2014 was 2.2%, outpacing the rate of growth achieved by the South West region (1.75% per annum) and the national economy (1.83% per annum). Notable in this context is (a) the fact that all three sub-regions in Devon grew more quickly than either the South West or England; and within this, (b) the especially strong performance of Northern Devon (defined here as the districts of North Devon and Torridge). The data also point to the resilience of the Northern Devon economy since the economic recession in 2008. Albeit from a low base, Northern Devon's GVA grew in absolute terms by 5.1% between 2008 and 2014, outpacing county (2.2%), regional (1.9%) and national (3.6%) growth.

[2] Local economy forecasting model (2014 baseline)

Figure 2-1: GVA growth in Devon, its sub-regions and comparators 2000-2014, Index 2000=100

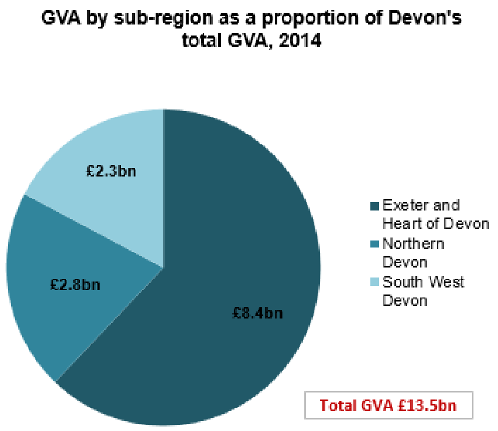


Area	2000 GVA (£bn)	2014 GVA (£bn)	Compound Average Annual Growth Rate (%) 2000-14
Exeter and Heart of Devon	6,442	8,363	1.88
Northern Devon	1,892	2,768	2.76
South West Devon	1,650	2,327	2.49
Devon County	**9,983**	**13,458**	2.16
SW	81,417	103,747	1.75
England	935,991	1,206,079	1.83
England (not incl. London)	703,606	882,246	1.63

Source: SQW analysis of CE LEFM (2014 baseline) data; £ 2010

2.4 At the sub-regional level, the contribution of Exeter and the Heart of Devon to total county level GVA is substantial, at 62%. However, its share of Devon's total GVA fell between 2000 and 2014 by some 3 percentage points. Correspondingly, Northern Devon's contribution to county GVA rose over this period, reflecting the stronger relative growth shown in Figure 2-1.

Figure 2-2: GVA share by Devon's sub-regions between 2000 and 2014



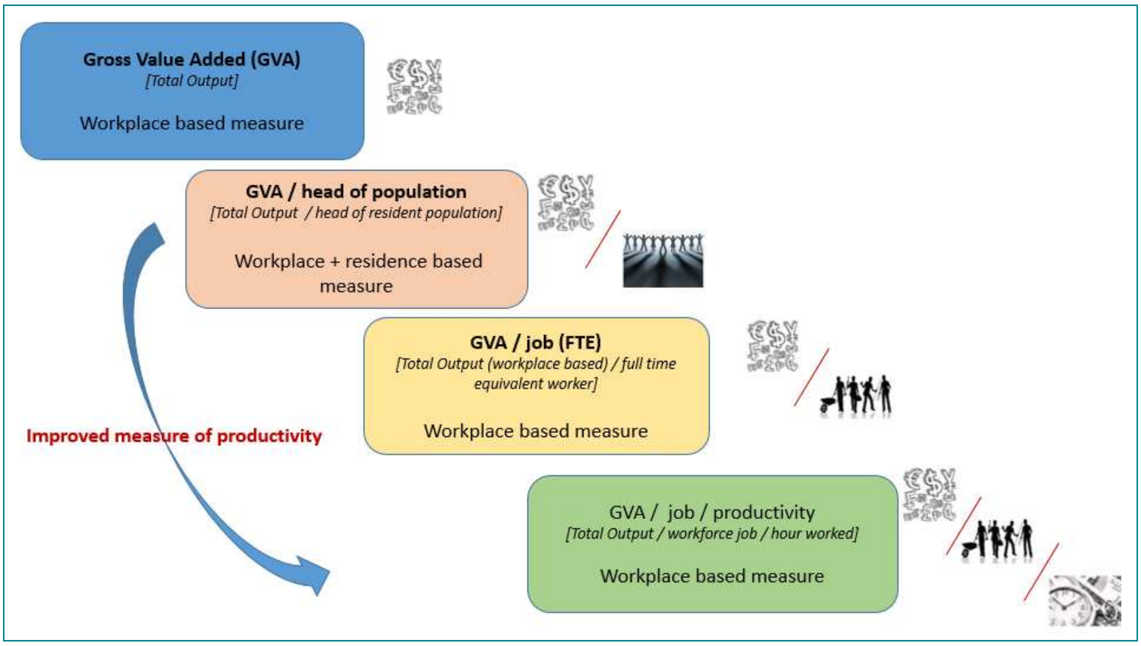
Area	GVA share of Devon Total (2000)	GVA share of Devon Total (2014)
Exeter and Heart of Devon	65%	62%
Northern Devon	19%	21%
South West Devon	17%	17%
Total	**1.00**	**1.00**

Source: SQW analysis of CE LEFM (2014 baseline) data; £ 2010

Productivity explained

2.5 Productivity concerns the balance between inputs and outputs. It is often analysed through the lens of the labour market; and in this context, it measures the amount of output generated per worker, per job or per hour worked. The different "levels" at which productivity can be measured at a sub-regional level are outlined in Figure 2-3 below:

Figure 2-3: Productivity measures explained



Source: SQW

- **GVA per capita** is often quoted as a headline statistic, but it is more a measure of wealth than productivity. Moreover it mixes a workplace-based measure (GVA) with a residence-based measure (population). Locally, this creates some anomalies because not all residents will work within the county, nor will they all be of working age, and nor will they all be employed. This has particular implications for Devon which – although relatively self-contained on a workplace-based measure – has a high proportion of over 65 year olds compared to the national average.
- **GVA per workforce job** is a better measure as it allows for a direct comparison of workplace based output with workplace based employment. [It is sometimes measured in terms of full time equivalent jobs (FTE) and sometimes in terms of total employment. CE's estimates of jobs do not distinguish between part time and full time jobs so the analysis that follows is based on total employment.]
- **GVA per hour worked** is calculated on the same basis but measures GVA on an hourly basis to account for variation in working hours.

2.6 Data are presented on GVA per head and GVA per workforce job in the following sections. GVA per job per hour is considered, but data limitations at the sub-regional level mean that little analysis is possible.

Devon's performance on GVA per capita and the productivity gap

2.7 GVA per head of population in Devon was £17,300[3] in 2013[4] (2010 prices). This compared to £18,700 in the South West and £21,700 in England. On this measure, Devon's performance is therefore 80% of the England average. In 2000, GVA per head was 75% of the England average; the implication is that the gap with England has closed somewhat. In principle, this could be because of stronger than average GVA growth in Devon or slower population growth; the evidence suggests the former.

2.8 In financial terms, the GVA per head deficit in Devon was equivalent to a nominal £3.4bn in 2013. Simply put, this means that if GVA per head in Devon matched the England average, Devon's GVA would increase by £3.4bn– an increase of just over 25% on 2013 levels.

2.9 Table 2-1 and Table 2-2 unpick the GVA per head gap by comparing Devon against the national average on various labour market metrics. As the table shows, the working age population (16-64) is more likely to be in work than its England counterparts; and Devon's full time employees work longer hours than the national average. The GVA per head gap cannot therefore be explained through these factors. Noticeably however, the proportion of the total population of working age in Devon is considerably lower than for England as a whole; and the incidence of full time jobs is low. Devon also performs poorly on measures of GVA per job (at 80% of the England average). So, there are relatively few potential workers in Devon; and each job generates relatively little GVA.

Table 2-1: Economic Performance compared to England, 2013 (Index, England = 100)

Area	GVA / head	WAP as % of total pop	Employment rate [5]	Hours per full time worker (per week)	Hours per part time worker (per week)	Proportion of full time jobs	GVA / job [6]
Devon	80	94	106	104	103	95	80
South West	86	97	104	100	98	96	86
England	100	100	100	100	100	100	100

Source: GVA per head and GVA per job – CE; hours per worker from ONS ASHE (median values – workplace based data); employment rate – ONS APS; and WAP – ONS Mid-Year Population estimates. NB Hours per worker are only available for employees. Devon's high incidence of self-employment will influence the figures.

Table 2-2: Economic Performance compared to England, absolute figures

Area	GVA / head	WAP as % of total pop	Employment rate	Hours per full time worker (per week)	Hours per part time worker (per work)	Proportion of full time jobs	GVA / job
Devon	£17,300	59.7	75.9	38.9	19.3	70.5	£34,600
South West	£18,700	61.7	74.6	37.5	18.5	71.3	£36,900
England	£21,700	63.8	71.4	37.5	18.8	74	£42,900

Source: GVA per head and GVA per job – CE; hours per worker from ONS ASHE (median values – workplace based data); employment rate – ONS APS; and WAP – ONS Mid-Year Population estimates. NB Hours per worker are only available for employees. Devon's high incidence of self-employment will influence the figures.

[3] Based on GVA estimates from Cambridge Econometrics Local Economy Forecasting Model (2014 baseline) and ONS Mid-Year Population estimates.
[4] This is based on latest available population estimate data from ONS.
[5] Employment rate data referred to here is for Sept 2012 – October 2013
[6] GVA / job as measured by CE counts part time and full time jobs (both employed and self-employed)

2.10 Table 2-1 and Table 2-2 therefore suggest the GVA per head gap between Devon and the England average is attributable to:

- the relatively low proportion of Devon's total population which is of working age (16-64 years);
- the relatively high proportion of working residents who work part time; and
- a more fundamental weakness in labour productivity on a GVA per job basis (which is affected by the low proportion of full time jobs in Devon and may also relate to sectoral mix (see Chapter 3)).

2.11 GVA per job per hour data – the best measure of labour productivity – are not presented here due to data limitations. The inference however from the table above is that the gap between Devon and the national average could be larger on this measure as people work longer hours than the national average.

2.12 The implications of Table 2-1 are that with high employment, and longer working weeks than the national average, growth could be generated in Devon by substituting full time jobs for part time ones. Doing so would also have a bearing on Devon's performance on GVA per job metrics which – as reported here – does not distinguish between part time and full time jobs.

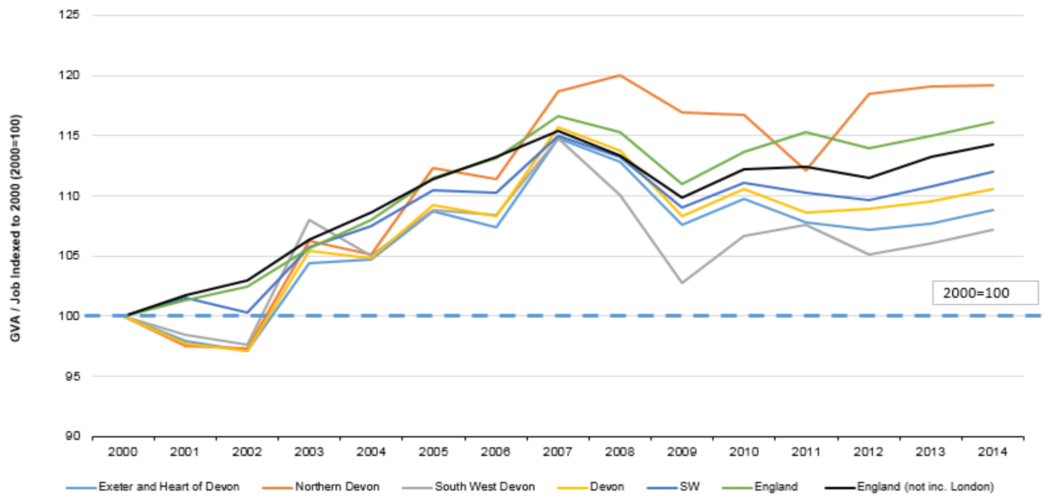
Devon's productivity in absolute terms and in the context of the recession

2.13 In headline terms, total GVA per job in Devon was £34,600 (2010 prices) in 2014. This was equivalent to 80% of the national figure (£43,300), although the latter was strongly influenced by London. To account for this, the "England-less-London" figure is worth considering. However at £39,200, this was still noticeably higher than that across Devon.

2.14 Over time, the "productivity gap" with England has widened: in 2000, productivity was 84% of the England average, while in 2014 it was 80%. A similar relationship is observed when comparing productivity in Devon with the "England-less-London" figure. It therefore appears that Devon has become a relatively less productive place since 2000 compared to other parts of England. This is important – and not easy to explain – in the context of the analysis above which showed Devon's GVA per head gap with England as closing over this period.

2.15 The county level data mask some interesting dynamics at the local level, particularly in relation to Northern Devon. In 2000, GVA per job was the lowest among the three Devon sub-areas; but by 2014, it appeared to be the highest. In Northern Devon, GVA per job rose by 1.3% a year (CAGR) between 2000 and 2014, a faster rate than the county (0.72% per annum), South West (0.81% per annum) and national average (1.07% per annum). It is quite substantially therefore "bucking" the county trend. The narrative is also significant in absolute terms with GVA per job rising from £31,300 in 2000 (below the Devon average) to £36,000 in 2014 (above the county average). It lends further weight to the overall – and relative – strengthening of the Northern Devon economy.

Figure 2-4: Devon's productivity performance in context (Index, 2000=100)



Area	GVA /Job (2000)	GVA / Job (2014)	Compound average annual growth rate (%)
Exeter and Heart of Devon	31,734	34,529	0.60
Northern Devon	30,272	36,089	1.26
South West Devon	30,841	33,054	0.50
Devon	**31,300**	**34,600**	**0.72**
SW	33,300	37,300	0.81
England	37,300	43,300	1.07
England (not inc. London)	34,329	39,236	0.96

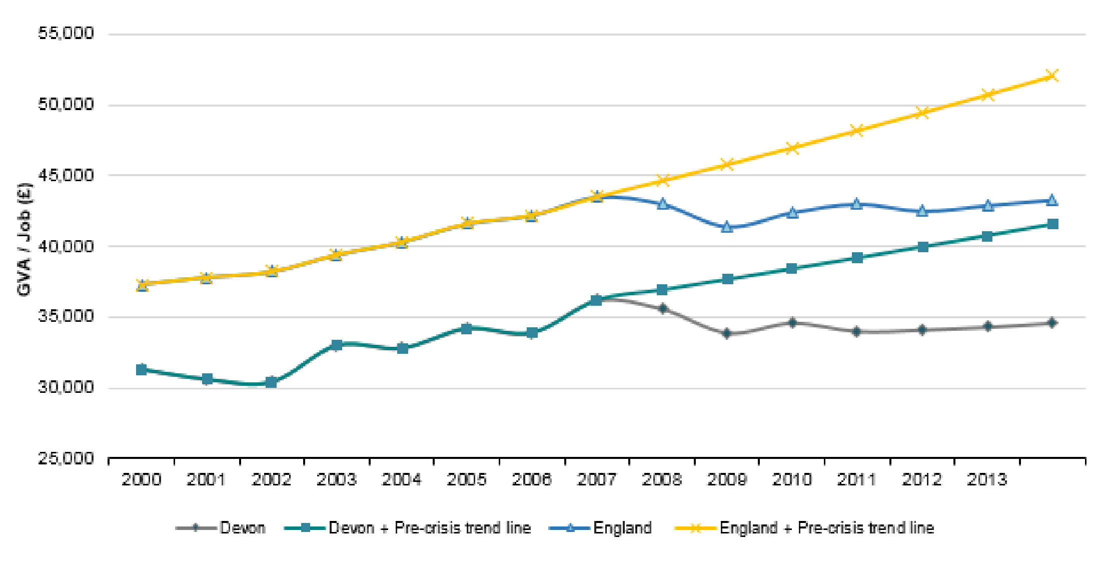
Source: Source: SQW analysis of CE LEFM (2014 baseline) data; £ 2010

2.16 At the national level, productivity growth has been particularly weak since the 2008 financial crisis, both relative to other major advanced economies, and in historic terms.[7] During this period, employment has remained surprisingly resilient, casting huge speculation on what has caused the UK's productivity dilemma, often referred to as the "productivity puzzle".

2.17 The narrative of high employment and low productivity growth since 2008 resonates strongly in Devon. Figure 2-5 compares the long run trend of productivity performance[8] achieved before the financial crisis and actual productivity growth since for both England and Devon. At £34,600[9], Devon's productivity (measured in GVA per job) in 2014 was 20% below the level projected by applying the long term growth rate forward from 2008. At the national level, GVA per job was £43,300, and similarly, 20% below its long run trend rate of growth. This suggests that the Devon economy, in productivity terms, has mirrored the national economy.

[7] http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf
[8] Taken here as the compound average annual growth achieved between 2000 and 2008
[9] 2010 prices.

Figure 2-5: England & Devon productivity trends 2000-2014



Source: SQW analysis of CE LEFM (2014 baseline), £, 2010

Conclusions

2.18 The analysis in this chapter has relied substantially on modelled data which have been produced by Cambridge Econometrics through its Local Economy Forecasting Model. There is therefore some need for caution, recognising the limitations of all modelled data. Nevertheless, the following conclusions emerge from the analysis:

- Overall CE data suggest headline growth in Devon has been strong since 2000. It has outperformed GVA growth rates achieved in both the South West region, and the national economy.
- On a specific measure of wealth – GVA per head of population – Devon fares less well compared to the national average, although evidence shows the GVA per head gap is closing. This is in part a reflection of the strong GVA growth described above. Devon's apparently poor performance on this measure is partly attributable to a smaller working age population (as a proportion of total population), and the high incidence of part time working relative to the national economy. With particularly high rates of employment, and longer working hours (among full time employees) than England as a whole, data therefore point to full time job creation as a potential "lever" for growth in Devon.
- Devon also performs poorly on the basic measure of productivity – GVA per job – compared to the national economy. Data show this "productivity gap" is growing, although this may reflect the part-time working issue. Similar to the national economy since the economic recession, productivity growth has remained weak, and significantly below its long run trend rate. Closing this "productivity gap" with England would have a substantial effect on economic growth in Devon, given its particularly high rate of employment.
- At the sub-regional level, the Northern Devon economy has shown relative strength, both in terms of GVA and productivity growth compared with the county, South West and national average. Its contribution to Devon's total GVA has risen between 2000 and 2014, and has overtaken Exeter and the Heart of Devon in terms of productivity. It points to the relative strengthening of the Northern Devon economy.

3. Devon's sectoral composition and links to productivity

3.1 The sectoral composition of the economy often has a bearing on productivity. This chapter analyses sector level employment and productivity data to understand why Devon's productivity is how it is, and if the "productivity gap" with England might be explained by its sectoral composition.

The sectoral composition of the economy

3.2 In 2014, 'government services' accounted for 27% of jobs in Devon (compared to 25% nationally), with a further 17% of jobs in the 'motor vehicles, wholesale, and retail' sector (compared to 15% nationally). Since 2000, these two sectors have accounted for approximately 45% of all jobs in Devon compared to 40% for England as a whole. The 'accommodation and food services' sector also stands out as accounting for a larger proportion of total jobs in Devon compared with England as a whole, reflecting its rural geography and attractive tourism offer.

Table 3-1: Devon's sectoral composition between 2000 and 2014

Sector	Proportion of total Jobs in Devon (2000)	Proportion of total Jobs in England (2000)	Proportion of total Jobs in Devon (2014)	Proportion of total Jobs in England (2014)
Agriculture	3%	1%	3%	1%
Mining & quarrying	0%	0%	0%	0%
Manufacturing	11%	13%	8%	8%
Electricity, Gas & Water	1%	1%	1%	1%
Construction	7%	6%	8%	6%
Motor vehicles, wholesale, retail	17%	17%	17%	15%
Transport & Storage	4%	5%	4%	5%
Accommodation & food services	8%	6%	9%	6%
Information & communications	2%	4%	3%	4%
Financial & business services	13%	19%	15%	23%
Government Services	27%	22%	27%	25%
Other Services	7%	5%	6%	6%
Total	**100%**	**100%**	**100%**	**100%**

Source: SQW analysis of CE LEFM data (2014 baseline)

3.3 The data included in the table above suggest that Devon's economy is under-represented in the 'financial and business services' sector compared to the national economy. While the sector has grown relative to other sectors since 2000, it still accounted for 15% of total employment in 2014, compared to 23% nationally. Equally, Devon is under-represented in the 'information and communications' sector; like 'financial and business services', it has grown relative to other sectors since 2000. Both of these sectors are typically associated with higher value, more productive, and better paid jobs.

3.4 Table 3-2 below presents a more detailed analysis of Devon's largest employment sectors. Alongside employment figures it shows both the absolute and relative performance on GVA per job compared to the national economy; employment growth between 2000 and 2014 (in percentage terms); and the relative distinctiveness of the sector compared to the national economy, using location quotients.

Table 3-2: Largest employment sectors, their distinctiveness, employment growth and productivity, 2014

Largest Employment Sectors	LQ wrt England (2014)	Total Employment (2014)	Employment Growth 2000-2014 (% change)	GVA per Job as a % of England figure (2014)	GVA per job
Retail trade	1.21	44,300	18.13	0.85	£22,300
Construction	1.29	32,400	40.26	0.83	£33,000
Education	0.92	31,700	37.83	0.96	£29,200
Health	0.98	26,200	12.93	0.91	£31,700
Residential & social	1.19	25,700	37.43	0.97	£15,300
Food & beverage services	1.18	21,800	62.69	0.82	£15,000
Public Admin. & Def.	1.37	20,600	-6.79	0.97	£46,300
Business support services[10]	0.60	20,400	37.84	0.96	£28,400
Wholesale trade	0.90	13,100	13.91	0.60	£28,200
Other services	1.18	13,100	7.38	0.76	£22,200
Devon (all sectors)	n/a	n/a	27.0	0.80	£34,600

Source: SQW analysis of CE LEFM (2014 baseline), 2010 £

Sector definitions are based on CE's 45 Industries defined in terms of the 2007 Standard Industrial Classification (SIC2007)

3.5 The following observations can be gleaned from Table 3-2:

- Most of Devon's largest employment sectors are also distinctive; they account for a higher proportion of employment than would be considered the average across England, reflected by relatively high location quotients. For example 'retail trade' accounts for 21% more employment in Devon than the average economy across England. The exceptions to this general picture are 'business support services' (LQ=0.6) and 'wholesale trade' (LQ=0.9)
- Employment growth in Devon's largest employment sectors has been strong between 2000 and 2014, with the exception of 'public administration and defence'. Substantial growth has been seen in the 'food and beverages services' sector and the 'construction' sector.
- Amongst the ten largest employment sectors, some of the higher productivity sectors in Devon appear to have grown slowly or even declined in terms of their scale over recent years; the most notable example is 'public administration and defence'.

[10] NB this does not include financial services which is a high productivity, high value sector.

- Devon's key employment sectors, with the exception of 'public administration and defence', are associated with low productivity jobs, both in absolute terms, and relative to the Devon and national average. This is explored fully in the section below.

How employment changed pre-post-recession

3.6 Understanding the impact of the recession on employment growth in Devon's sectors can reveal important insights into their resilience. Table 3-3 shows employment growth in Devon between 2000 and 2007, between 2008 and 2014 as well as the sectoral composition of employment pre-post the recession in 2008.

Table 3-3: Employment Growth and sector composition pre-post the recession, 2000-2014

Sector	Employment growth (%) from 2000-2007	Employment growth (%) from 2007-2014	Proportion of total employment 2007	Proportion of total employment 2014
Agriculture	8.1	19.4	2.5	2.9
Mining & quarrying	-22.2	14.3	0.2	0.2
Manufacturing	-15.3	1.3	8.0	7.8
Electricity, Gas & Water	30.8	67.7	0.9	1.5
Construction	19.5	17.4	7.4	8.3
Motor vehicles, wholesale, retail	13.0	4.0	16.9	16.8
Transport & Storage	20.0	-1.3	4.0	3.8
Accommodation & food services	22.3	12.1	8.0	8.5
Information & communications	60.3	-3.4	3.2	2.9
Financial & business services	32.4	5.4	14.4	14.5
Government Services	20.7	-0.8	28.3	26.8
Other Services	7.0	3.0	6.2	6.1
Total	***16.5***	***5.2***	***100.00***	***100.00***

Source: SQW analysis of LEFM employment data

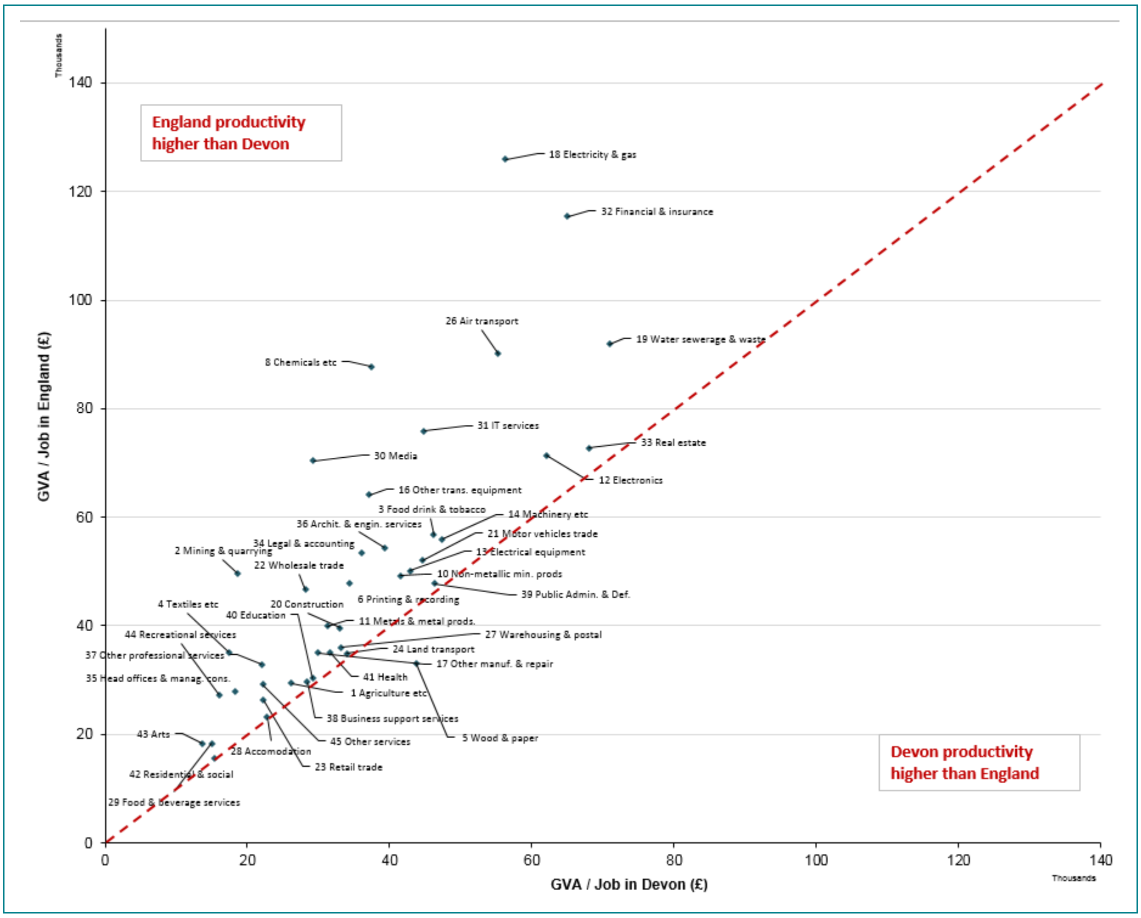
3.7 The table points to resilience (in employment growth terms) in the 'accommodation and food services', 'construction' and 'agriculture' sectors relative to other sectors in Devon. In both the 'construction' and 'accommodation and food services' sectors, however, employment growth between 2007 and 2014 was lower than the levels seen between 2000 and 2007. This was true for all sectors except 'mining and quarrying', 'manufacturing', 'electricity, gas and water', and 'agriculture'.

3.8 The result of these growth dynamics over time is that the proportion of total employment accounted for by the 'construction' and 'accommodation and food services' sectors has risen marginally between 2007 and 2014. Reflecting much slower employment growth between 2007 and 2014 than 2000 and 2007, the 'government services' sector accounted for a smaller share of total employment in 2014 than it did in 2007.

Productivity in Devon's key sectors

3.9 Figure 3-1 below shows the performance of sectors in terms of productivity (GVA per job) for Devon and England. Sectors positioned below the diagonal line are more productive in Devon than the England average, and those above the diagonal line are less productive than the England average. It is striking that virtually all sectors, with the exception of the 'wood & paper' sector, are less productive in Devon than the England average. Another important observation is that for higher productivity sectors, the productivity divergence between Devon and England – on average – grows. Put differently, the more productive the sector, the greater the difference (measured in distance from the dotted 45 degree line) between Devon and England's productivity in absolute terms.

Figure 3-1: GVA per job in Devon and England: A comparison, 2012 (£, 2010)



Source: SQW analysis of CE LEFM data (2014 baseline), £, 2010

3.10 The inference from Table 3-2 and Figure 3-1 is that not only does Devon generally have an over-representation of lower productivity jobs compared with the national average, but the jobs within these sectors are also less productive in Devon than the England average. Take the 'retail' sector as an example: it is the largest employment sector in Devon with 20% more employment than the average across the national economy; and its GVA per job (£22,300) is low compared to the (economy-wide) Devon average and below the national average for the sector (£26,300).

Conclusions

3.11 Devon’s largest employment sectors are ‘retail’, ‘construction’ and ‘government services’. Together they account for a greater share of Devon’s employment than the national average.

3.12 Devon is over-represented – in employment terms – in sectors which have low productivity jobs – such as the ‘retail’, ‘food and beverage services’, and ‘residential and social care’ sectors. Data also suggest these jobs are less productive than the England average. At the other end of the productivity spectrum, Devon’s high productivity sectors appear to be growing at a slower rate – or even declining – in employment terms relative to the county average.

3.13 The data therefore point to differences in sectoral mix as an important factor in explaining the “productivity gap” between Devon and the national average.

4. What has changed since 2012 LEA?

4.1 Devon's first Local Economic Assessment (LEA) was substantially completed in 2012. Since then, there have been some significant changes both at the local and national level. In headline terms, the national economy is now in a stronger position than it was in 2012, although the recovery is still fragile, and has by no means been uniform across the country. At the local level, Devon has benefited from the delivery of key infrastructure – most notably superfast broadband. Major development has also been on-going, particularly on the eastern fringe of Exeter.

4.2 To consider what has changed, it is useful to refer back to the headline findings from the 2012 LEA productivity paper. Interpreting these changes, however, is complex: the two analyses have different baselines, are presented in different price base years, and use different geographies as comparators (UK in the 2012 LEA, and England in the 2015 LEA). The headline differences, are presented in Table 4-1.

Table 4-1: Understanding how Devon's economic narrative has changed since the 2012 LEA

Headline observation from the 2012 LEA (1990 – 2010)	Situation reported in the 2015 LEA (2000-2014)
GVA in 2010 was £11bn (2005 Prices) and accounted for 13% of total GVA for the South West region Using the 2014 baseline LEFM used in this document, GVA in 2010 was £13.1bn (2010 prices).	GVA was £13.5bn (2010 Prices) in 2014 and accounted for a similar proportion of total GVA generated by the South West region. Estimates of Devon's GVA have therefore increased marginally since 2010.
Average annual GVA growth between 1990 and 2010 in Devon was below the national and South West averages.	Average annual GVA growth between 2000 and 2014 in Devon has outpaced both the national and South West averages.
The GVA per head gap with the UK average had progressively widened over the 20 years to 2010	The GVA per head gap (with the average for England) between 2000 and 2014 has narrowed. However the GVA per job gap has widened.
Devon generally had a lower proportion of residents of working age and a higher employment rate than the national average.	Unchanged.
Devon's headline productivity was below the national average, and had grown at a slower rate between 1990 and 2010.	Headline productivity (GVA per job) continues to be below the national average; and the productivity gap with the rest of England increased between 2000 and 2014.
Devon's key sectors in employment terms were Government Services, retail, hotels and catering and public administration and defence sectors	Unchanged
9 sectors of the 27 analysed performed better than the UK average in terms of GVA per job in 2010.	One sector of the 45 analysed[11] performed better than the England average in terms of GVA per job in 2014.
Devon had an over-representation of lower productivity jobs compared to the UK in 2010 and the jobs within some of these sectors were less productive in Devon than the UK average.	A similar picture was found in 2014, although GVA per job in Devon's ten largest employment sectors is lower than the England average.

Source: SQW

4.3 In headline terms, the growth narrative – in terms of GVA – is marginally stronger in Devon than was reported in the 2012 LEA. This is partly a reflection of the time period used in the two analyses: the 1990s coincided with a period of meagre growth in Devon, while the 2000s

[11] The number of sectors depends on the SIC code grouping used. In the 2015 LEA we use CE's 45 Industries defined in terms of the 2007 Industrial Classification (SIC2007)

were generally stronger relative to the national average. As a consequence of strong GVA growth in the mid-2000s, the GVA per head performance also looks stronger in Devon, with data pointing to a reversal of the GVA per head gap divergence with the national average found in 2012. On the two basic measures of wealth (creation), therefore, the overall picture looks somewhat stronger than was reported in the 2012 LEA.

4.4 Devon's productivity narrative appears much the same as it was in 2012: The "productivity gap" with the national average is increasing. This is unsurprising given the time frames involved for fundamental changes in labour market structure, and sectoral composition, to take place. In terms of the labour market, part time employment is still high, while the working age population (as a proportion of the total) is still low. Sectoral composition is still similar although there is a suggestion of deterioration in terms of GVA per job: in 2012, nine (of the 27 sectors analysed) performed better than the national (UK) average, while in 2014, one sector (of the 45 sectors analysed) performed better than the England-wide average.

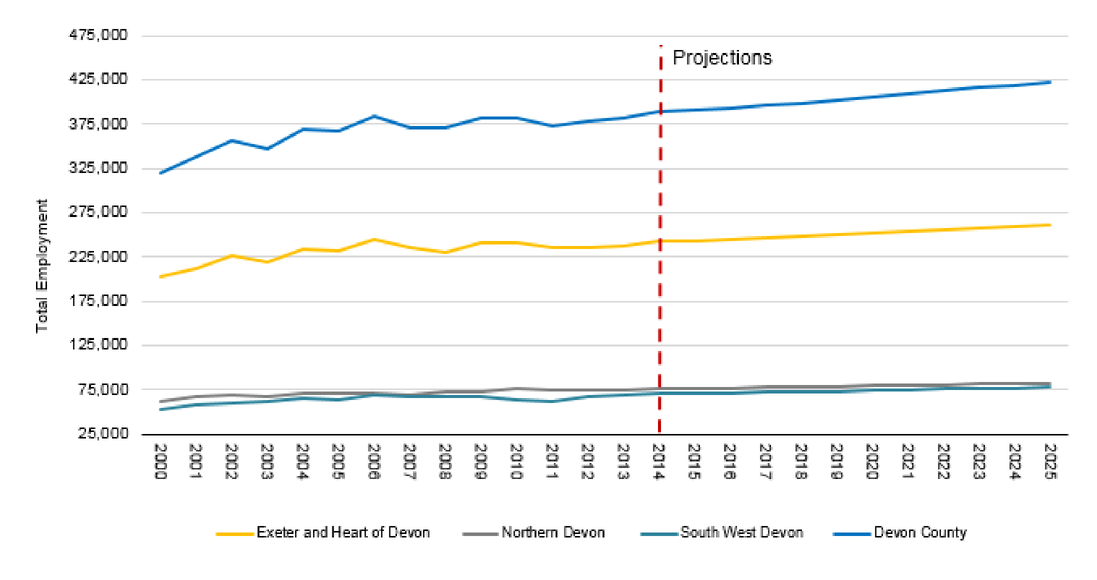
5. A forward look

5.1 CE's baseline projections are driven out of historic data (2013). They present one, modelled, view of what the future may look like across Devon in terms of GVA, employment and productivity. This chapter looks at Devon's projected economic profile through to 2025.

Jobs

5.2 Historic and projected future growth in jobs in Devon is shown in Figure 5-1 below. CE estimates that in 2000 there were approximately 320,000 jobs in Devon; by 2025 the number of jobs is projected to have grown to just over 421,000.

Figure 5-1: Jobs in Devon



Source: SQW analysis of CE LEFM (2014 baseline)

5.3 Between 2000 and 2014, the rate of growth in employment has fluctuated. Three distinct periods might be defined: the early to mid-2000s which experienced strong employment growth, both in absolute terms and relative to England as a whole; a period of flat-lining coinciding with the economic recession; and, from 2011, a more gradual increase in employment. The table below presents compound annual growth rates (both historic and projected future) for employment in Devon and its sub-regions, the South West and England. The data again point to Devon's relatively strong performance in employment terms: in all three time periods, Devon outperforms England. Locally, the performance of South West Devon stands out as the most volatile while Northern Devon generally performs more strongly than the county-wide average. For all three sub-areas (and for Devon, the South West and England), the rate of projected growth from 2012 to 2025 is slower than that observed pre-recession (2000-08).

Table 5-1: Historic and projected future annual growth rates in employment (% per annum)

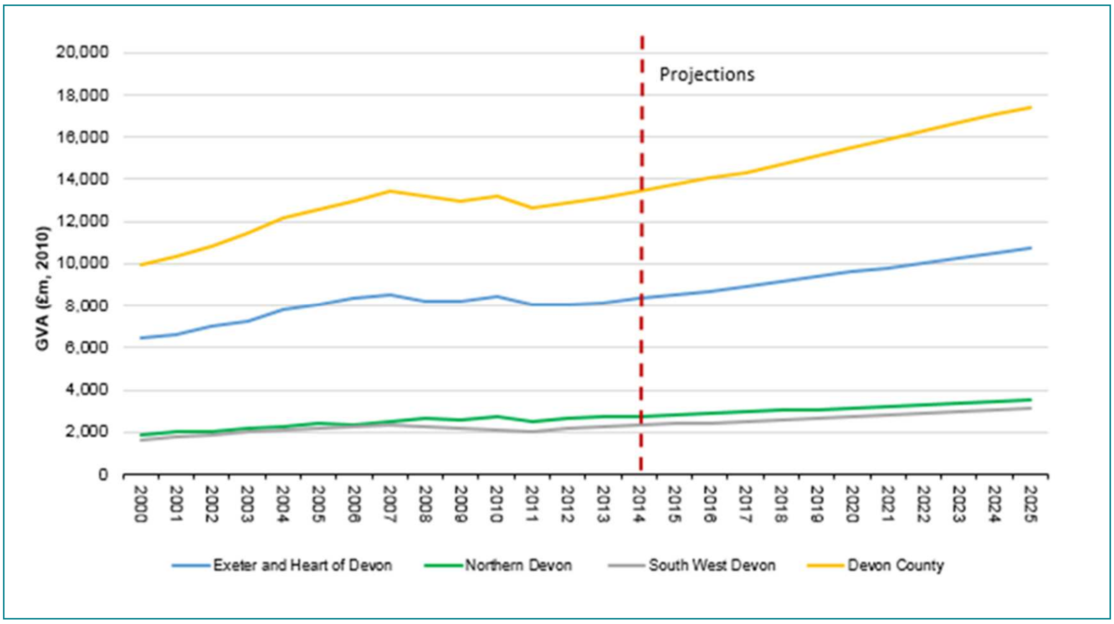
Area	2000-2008	2009-2011	2012-2025
Exeter and Heart of Devon	1.6	0.8	0.8
Northern Devon	1.9	1.0	0.9
South West Devon	3.0	-3.1	1.1
Devon County	1.9	0.2	0.9
SW	1.3	0.0	0.7
England	1.0	-0.6	0.7

Source: SQW analysis of CE LEFM (2014 baseline) £2010

GVA

5.4 The graphic which follows shows the growth of GVA (in constant 2010 prices) in Devon and its sub-regions from 2000 through to 2025. The picture is one of cyclical growth coinciding with the economic recession. CE estimated that in 2000 GVA in Devon was £10.0bn; by 2025 GVA is projected to grow to approximately £17.4bn.

Figure 5-2: GVA in Devon (2010 prices)



Source: SQW analysis of CE LEFM (2014 baseline) £2010

5.5 The table below presents annual growth rates in GVA for Devon, its sub-regions, the South West and England. Reflecting the narrative outlined in Chapter 2 – and as Table 5-2 shows - growth rates across Devon between 2000 and 2008 outpaced the broader South West region, and the national economy. It was notably affected by the economic recession, however, and more so than the national and South West economies. Through to 2025, lower annual growth (than pre-recession levels) is expected in Devon, broadly in line with the national economy. At the sub-regional level, the strong growth in Northern Devon between 2000 and 2008 relative to the county as whole, is projected to slow relatively; between 2012 and 2025, the fastest GVA growth is projected in South West Devon.

Table 5-2: Historic and projected future annual growth rates in GVA (£, 2010) (% per annum)

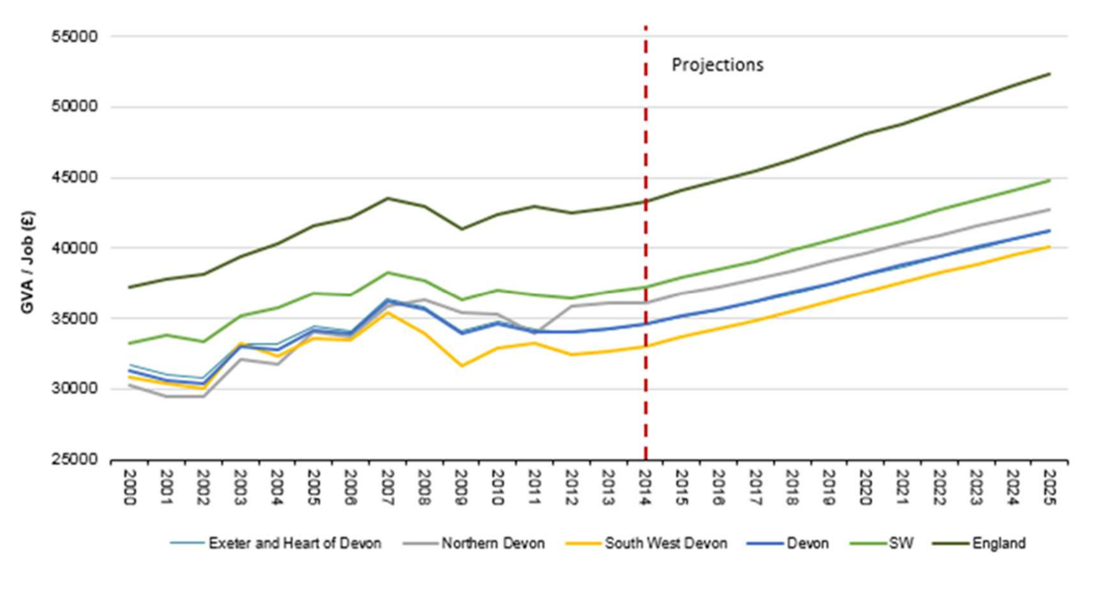
Area	2000-08	2009-11	2012-25
Exeter and Heart of Devon	3.1	-0.7	2.3
Northern Devon	3.9	-0.4	2.2
South West Devon	3.4	-1.8	2.7
Devon County	3.3	-0.8	2.4
SW	2.4	0.2	2.3
England	2.1	1.2	2.3

Source: SQW analysis of CE LEFM (2014 baseline), £, 2010

Productivity GVA / Job

5.6 In 2000 the output generated by the average job in Devon was valued at £31,300 (in 2010 prices); by 2025 this is projected to increase to over £40,000. Figure 5-3 below shows the past and projected future performance of Devon, its sub-regions, the South West and national economy on productivity. In this context, the dynamic at the sub-regional level is interesting. Between 2000 and 2014, Northern Devon goes from being the least productive sub-region in Devon, to the most productive one; and its relatively strong performance is projected to continue.

Figure 5-3: Devon's productivity growth 2000-2015 (£, 2010)



Source: SQW analysis of LEFM (2014 baseline), £, 2010

5.7 The table which follows compares growth rates in productivity across Devon, the South West and England. It points to relatively weak productivity growth in Devon between 2000 and 2008 which is in line with the South West region, but below the national average. Projected future performance in productivity growth, however, is expected to be in line with the national and South West averages, meaning there are no signs of the "productivity gap" with the rest of England closing.

Table 5-3: Historic and future annual growth rates in GVA per job (£, 2010) (% per annum)

Area	2000-08	2009-11	2012-25
Exeter and Heart of Devon	1.5	0.1	1.3
Northern Devon	2.3	-1.4	1.7
South West Devon	1.2	1.6	1.4
Devon	1.6	0.1	1.4
SW	1.6	0.4	1.4
England	1.8	1.3	1.4

Source: SQW analysis of CE LEFM (2014 baseline) £, 2010

Conclusions

5.8 On the basis of these three headline indicators, the Devon economy appears to be in reasonable shape, both in employment and GVA terms when compared to elsewhere. On productivity however the picture is less bullish. Focusing on the period from 2000 to 2025, the data point to three overarching conclusions:

- Future projected employment growth in Devon is higher than the national and South West region averages between 2012 and 2025. Across all areas, employment growth is expected to be lower than rates seen pre-2008 (between 2000 and 2008). Locally, employment growth in Northern Devon is expected to be stronger than elsewhere across Devon.
- Projected GVA growth is expected to be lower in Devon than pre-recession levels, (between 2000 and 2008), but to outperform marginally the national economy and South West region. Locally, South West Devon is expected to grow at a faster rate than the county average.
- Projected productivity growth in Devon is in line with the national and South West economies. It is lower than productivity growth achieved between 2000 and 2008.

6. Conclusions

6.1 The economic growth narrative in Devon since 2000 has been relatively strong. It has outperformed the regional and national averages in terms of annual GVA growth over the period, reversing the relationship seen throughout the 1990s.

6.2 An analysis of GVA per head – a basic measure of wealth – has shown Devon performs poorly compared with the national and regional averages, although its relative performance has improved since 2000. The poor performance on GVA per capita reflects:

- a low proportion of residents of working age compared with the national average;
- a high proportion of part-time working compared with the national average;
- a fundamental weakness in GVA per job – a basic measure of labour productivity – compared with the national average.

6.3 The implications are important. It means, were Devon to close the gap on any of the "issues" above, economic growth could be unlocked. In reality however these are complex issues to resolve, and they are driven out of Devon's demography and its sectoral make-up.

6.4 Devon's productivity on a GVA per job basis is low compared with both England and "England less London". This is – in part – a reflection of high part time working and high employment rates compared with the national average. Evidence suggests the "productivity gap" between Devon and the national average has grown since 2000, but that overall productivity reacted similarly to the national economy since the recession; it is currently significantly below its 2000-2008 trend rate.

6.5 A sectoral analysis has shown that Devon is over-represented (in employment terms relative to the national average) in lower productivity sectors (such as retail, construction, education and food and beverage services sectors). Not only are these some of Devon's largest employment sectors, but they are also less productive in Devon than the national sector averages. More broadly, data show across virtually every sector, productivity in Devon is lower than the national average. The sectoral composition of the Devon economy is therefore likely to have a significant bearing on its headline productivity performance compared with the national average.

6.6 At the sub-regional level, Northern Devon has performed particularly well. In terms of both GVA and GVA per job, it outperformed the county, regional and national growth rates between 2000 and 2014. Its contribution to county GVA has therefore risen, and it is – as of 2014 – more productive than Exeter and the Heart of Devon on a GVA per job basis. Looking ahead, projections for South West Devon are generally strong.

6.7 In reaching these conclusions, we would however reiterate that the data on which they are based need to be treated with some caution, recognising that they are modelled projections and no more. They do however provide one important scenario in terms of what the future of Devon may look like in economic terms.