7: Future prospects

Section 7: Key findings

- Notwithstanding the recent recession, over the medium term, significant growth is anticipated across the *Hampshire Economic Area.*
- The population is forecast to increase by around 10% over 20 years and the fastest rates of growth are expected in *South Hampshire.* However within this overall picture, the rate of growth in the working age population is actually quite small. Although this might increase as more people seek to work for longer (because of the changing retirement age and pensions provision), nevertheless, employers may struggle to find the workers they are expected to need.
- The expectation is that over the period 2006-2026, around 87,000 additional jobs will be created. In relative terms, the fastest growth is expected to be in *North Hampshire* but *South Hampshire* will see the biggest absolute increases.
- There may be labour shortages over the period to 2026 which could be an issue across all three sub-areas (although the implications will vary). However, there are many uncertainties: most of the shortfall could be addressed through modest above-trend increases in activity rates and/or improved skills.
- In terms of GVA, prospects for the *Hampshire Economic Area* are similar to the regional average, while in terms of GVA per worker (productivity), they are a little weaker. There are notable contrasts at a sub-area level: on both GVA and GVA per worker, the projected growth rate in *North Hampshire* is well ahead of that of the other two sub-areas.
- Economic growth (GVA) is expected to be led by professional services, computing services and communications while hotels and catering, computing, professional and business services, and health and social work are expected to contribute most to employment growth. The public sector is expected to decline in terms of its contribution to both GVA and employment.

7.1 For the Hampshire Economic Assessment, a key question is what the foregoing analysis tells us about future prospects. In order to inform this assessment we need to consider various modelled projections and forecasts.

Changes in the population of Hampshire

7.2 The household and population projections used in this Assessment reflect recent housing policies and targets[70,71]. Overall these indicate that the total population is forecast to increase by 10.2% across the *Hampshire Economic Area* over 20 years. At a sub-area level, the highest rate of population growth is forecast for *South Hampshire*

[70] Specifically, the provisions of the South East Plan and the contents of PUSH's Economic Development Strategy
[71] Within the Localism Bill, published in December 2010, the intention to revoke Regional Strategies was formally set out. This means that there is now a question as to the status of previously-agreed housing targets, particularly where they are not contained within an adopted Local Development Framework

(11.1% over 20 years). The rate of growth forecast for the *Central Hampshire/New Forest* sub-area is lowest at 7.2% with the *North Hampshire* sub-area forecast to increase by 10.6%. The highest absolute increase in population is also forecast for the *South Hampshire* sub-area (around 112,000).

7.3 These overall patterns of projected growth have a very distinctive age structure. Specifically, the County Council's population projections show that the post working age group, i.e. those aged 65 and over, account for 88% of the total population change in the *Hampshire Economic Area* from 2006 to 2026. There are important differences at a sub-area scale, namely, in *Central Hampshire/New Forest* the whole of the net population growth is in the current post working age group, in *South Hampshire* this group accounts for 84% of the net population increase and in *North Hampshire* the balance is slightly less stark, with 73% of the net population growth being in the current retirement group[72]. This confirms the national need for changes in the retirement age and in the pension system.

Changes in the labour force

7.4 The projected demographic changes across the *Hampshire Economic Area* have implications for the number of working age residents, i.e. those aged 16 – 64 for both men and women. Trends such as the lower average number of children born in the *Hampshire Economic Area* and lower projected in-migration to the area mean that relatively less young people will be entering the labour market in the future. The projected increase in the population of working age between 2006 and 2026 could be as low as 10,300.

7.5 However, other changes in the labour market (such as an expected rise in activity rates, changes in provision of pensions, and increases in retirement age), could lead to a significant increase in the availability of the labour force in the *Hampshire Economic Area*. Factoring in the change to the retirement age already agreed by Government takes the increase in the economically active population to 52,800 by 2026[73] (Column (i) in Table 7-1 below). In addition, further pressures arising from the shortages in the working age population, additional changes to the retirement age and national policies to address worklessness could all lead to a modest increase in activity rates above trend, taking the increase in the economically active population up to 97,000 by 2026 (Column (ii) in Table 7-1 below).

---

[72] For a fuller discussion of the demography of the *Hampshire Economic Area* see Theme 4 within the Extended Evidence Document

[73] Note that this addition reflects the increase of the retirement age – already agreed by government – to 66 from 2024. If the increase in the retirement age happened earlier (e.g. in 2016), then the increase in the economically active population would be greater. See http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_4017919

Expected growth in employment

7.6 But how many workers are businesses and other employers within the *Hampshire Economic Area* likely to need? A number of different estimates have been tested to explore the potential changes in the local economy. The most likely scenario (based on both Hampshire County Council (using Cambridge Econometrics' Local Economic Forecasting Model) and PUSH (using Oxford Economics' model) projections) estimates that between 2006 and 2026, an additional 87,000 jobs could be created in the *Hampshire Economic Area*. Around 51,000 of these are expected to be in *South Hampshire*, with about 18,000 in each of the other sub-areas[74].

The balance between workers and jobs

7.7 A comparison of forecasts relating to employment and the labour force is set out in Table 7-1. These different sets of numbers are important because of what they imply about the balance between workers and jobs: specifically, it is important to understand whether they are badly out of kilter and if so, what consequences could follow and what actions need to be taken.

Table 7-1: Comparison of workers and jobs, 2006-2026[75]

	WORKERS (i): Increase in the economically active population, 2006-2026	**WORKERS (ii):** Impact on economically active population 2006-26 of a modest increase in activity rates above trend, post 2016	**JOBS:** Increase in the number of jobs, 2006-2026
Hampshire Economic Area	52,800	97,000	86,800
• North Hampshire	15,100	24,400	18,000
• Central Hampshire / New Forest	6,700	14,000	17,600
• South Hampshire	31,100	58,700	51,200

Source: Hampshire County Council – based on baselines and alternative scenarios drawn from both LEFM and Oxford Economics (PUSH)

7.8 For the *Hampshire Economic Area* as a whole, Table 7-1 indicates a shortfall in terms of available workers if there were no changes beyond the announcement already made by Government of an increased retirement age (column (i)). However this shortfall is relatively small and it would be offset by a modest 5% increase in activity rates resulting from additional changes to the retirement age and national policies to address worklessness (column (ii)). At a sub-area level, the picture is more complicated:

[74] Later in this Section, we revisit the employment projections to consider sectoral dimensions
[75] Numbers in the table do not sum because of rounding

- For *North Hampshire*, projected jobs growth exceeds the projected increment in the economically active population assuming no changes beyond the already announced increased retirement age. Although the difference is not huge, it may be a challenge. The activity and employment rates in the sub-area are already high (see para 5.1) and probably therefore difficult to increase further. The skills base in this area is already strong – similar, in some respects, to the surrounding Thames Valley/M4Corridor – and hence the scope for productivity improvements and therefore jobless growth may not be great (see Figure 3-1). The adjacent areas in Berkshire and Surrey are likely also to be facing a deficit of workers over the same period. If the resident economically active population is not allowed to grow through in-migration, commuting may increase and/or implicit economic potential may simply not be realised.

- For *Central Hampshire/New Forest* there is a deficit in the projected growth of the economically active population which is relatively and absolutely bigger than that in *North Hampshire.* The shortfall is also bigger than that which could be remedied through any plausible further increase in activity rates. Given the evidence presented earlier, this apparent deficit and its scale may depend on assumptions made with regard to public sector employment. It could be that the projections have not yet factored in the full impact of the planned public spending cuts. However, if the jobs projections are broadly correct, the most obvious risk associated with them is increased in-commuting from the south.

- For *South Hampshire*, surplus demand for workers is also projected. This could be remedied by a further modest increase in activity rates. Moreover, improving the skills base of the economically active population would also make a difference, currently it is some way adrift of the other two sub-areas and a more skilled workforce ought also to be a more productive one. There is some risk that jobs growth in *Central Hampshire/New Forest* attracts increasing numbers of *South Hampshire's* resident workers. Indeed DTZ's recent work for PUSH provides evidence consistent with this pattern. However this is all the more reason why Southampton and Portsmouth need to be encouraged to function more effectively as genuine employment hubs, as envisaged by the recently refreshed PUSH Economic Development Strategy[76].

7.9 Overall then, the implication is that demand for labour may well outstrip supply without some addition to the trend increase in economic activity rates. Moreover, these findings suggest that any short term slackening in the labour market in the context of recession is likely to prove to be a relatively short term phenomenon. Over

[76] PUSH Economic Development Strategy, November 2010: Transformational Action 2

the medium term, the challenges experienced during the middle part of the last decade are likely to reappear.

Economic growth projections (GVA)

7.10 Headline data from the LEFM projections are captured in Table 7-2[77]. These suggest that:

- With regard to *total output (GVA)*, the *Hampshire Economic Area* is projected to grow at a very similar rate to the regional average and faster than the UK as a whole. At a sub-area level, *North Hampshire* is projected to grow much more quickly than the other two sub-areas, both of which are adrift of the regional average although still ahead of the national picture.
- With regard to *measures of productivity (GVA/Employment)*, the projected performance of the *Hampshire Economic Area* is less good than that for the South East and very similar to the national picture. At a sub-area scale, *North Hampshire* again performs strongly, but both the LEFM and Oxford Economics projections for *South Hampshire* (which are slightly higher at 1.7% for the 2006 to 2026 period) remain relatively weak. Again, this points to the importance of an active economic strategy in which improvements to the skills base and business investment in growth sectors must feature strongly.

Table 7-2: Projected annual growth rates in GVA and GVA/Employment (Source: LEFM)

	2001-2006	2006-2016	2016-2026	2006-2026
GVA				
UK (national data)	2.8%	1.4%	2.4%	1.9%
South East (regional data)	2.1%	1.7%	2.8%	2.2%
Hampshire Economic Area	2.5%	1.6%	2.7%	2.2%
• North Hampshire	2.5%	2.2%	3.2%	2.7%
• Central Hampshire/New Forest	2.2%	1.6%	2.6%	2.1%
• South Hampshire	2.5%	1.5%	2.6%	2.0%
GVA/Employment (Productivity)				
UK (national data)	1.8%	1.5%	2.1%	1.8%
South East (regional data)	1.6%	1.5%	2.2%	1.9%
Hampshire Economic Area	1.7%	1.3%	2.0%	1.7%
• North Hampshire	2.4%	1.9%	2.5%	2.2%
• Central Hampshire/New Forest	1.2%	1.3%	2.0%	1.6%
• South Hampshire	1.6%	1.2%	1.9%	1.5%

Source: Data provided by Hampshire County Council

[77] For South Hampshire, these correspond to the PUSH Economic Development Strategy

7.11 If businesses cannot recruit the workers they need, these projected outcomes are unlikely to be achieved. However there are other reasons too as to why the pattern of economic growth reflected in Table 7-2 should be treated with a degree of caution (and hence why demand for workers might be less than expected). Two are overarching:

- First, it could be that the modelled projections have not fully considered the long term impact of a lack of finance to support business investment. At the time of writing, the "credit crunch" – at least insofar as it affects lending to businesses – is self-evidently far from over and the nature and scale of its long term impact is unknown. This is borne out by Hampshire businesses ranking difficulty in accessing finance as their top concern (para 3.18)
- Second, in June 2010, the Office for Budget Responsibility (OBR) significantly scaled back national forecasts for GVA growth. This reflects the composite impact of fewer migrants and an ageing society resulting in reduced growth of potential labour supply[78]. It is unlikely that the *Hampshire Economic Area* will buck the national trend.

Unpacking the economic projections

Sources of economic growth

7.12 The latest projections based on LEFM suggest – as recorded in Table 7-2 above – that between 2006 and 2026, the economy of the *Hampshire Economic Area* is projected to grow at a rate similar to the South East regional average. In part this is due to the presence of higher productivity sectors particularly in *North Hampshire*. *South Hampshire* and *Central Hampshire/New Forest* are expected to grow at a slightly lower rate; in these sub-areas, growth will depend more on increases in employment.

Structural changes

7.13 The projections suggest that over the next 15 years, the *Hampshire Economic Area* will see a relative increase of employment in construction, distribution, hotels and catering, and in financial and business services. The latter sector should increase its share in total employment by around 4.8 percentage points. The "public sector[79]", by contrast, is projected to see the biggest decline in the share of total employment; from 26.4% in 2010 to 23.4% in 2026.

7.14 Changes in the share of economic output by sector are driven by two factors – the number of jobs and overall productivity. LEFM projections suggest that financial and

[78] See http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf
[79] Public Administration & Defence, Education and Health & Social Work are often used as a proxy for public sector employment. However, Education and Health include a significant number of private activities so the use of this group over-estimates the size of the public sector.

business services' share of economic output will increase from 28% to 35% of the total between 2010 and 2026. This is partly due to the increasing numbers of jobs but also to productivity increases. The "public sector" is projected to contribute just under 15.4% of economic output by 2026, down from 18.9% in 2010.

More detailed observations from the projections

7.15 From the LEFM projections, it is possible to make some more disaggregated sectoral observations:

- **economic growth (GVA)** is expected to be led by growth in professional services, computing services and communications. Smaller – but still important – contributions are projected from distribution, retail, banking and finance, health and social work and other business services
- in terms of **employment growth**, sectors such as hotels and catering, computing services, professional services, other business services, health and social work and miscellaneous services are projected to contribute most
- **productivity improvements** are projected in the following sectors in particular: manufacturing of fuels, pharmaceuticals, electronics, motor vehicles, electricity, gas supply and communications

7.16 Some of the high growth sectors identified above – like pharmaceuticals, electronics, motor vehicles, computing services – are within the priority sectors identified in Section 4. Their prospects and performance have also been analysed in the recent study by DTZ for PUSH. This research also identified other sectors, such as construction, creative industries, public sector, retail and transport, storage and logistics that are important to the local economy of the *South Hampshire* sub-area.