

# Hampshire Economic Assessment, 2011

Extended Evidence Document: Future  
prospects

March 2011



Hampshire  
County Council

SQW

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## **Future prospects**

# 1: Introduction

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- 1.1 An important underpinning principle of the LEA is that it should be forward-looking. In order to provide this forward-looking perspective it is necessary to consider various modelled projections and forecasts that cover:
- population and household projections
  - employment projections
  - GVA projections.
- 1.2 Theme 4 provides an in-depth analysis of the household and population projections for the *Hampshire Economic Area* including comparison of Hampshire County Council's projections with those produced nationally by ONS (population) and CLG (household); and the projections relating to labour supply. The remainder of this paper therefore provides a summary of these findings along with a headline analysis of the balance between workers and jobs, and GVA projections.

## 2: Data analysis

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### Changes in the population of Hampshire

- 2.1 Hampshire County Council's household and population projections reflect recent housing policies and targets. 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* (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)<sup>1</sup>.

### Changes in the labour force

- 2.2 If the Hampshire County Council forecast is realised, the actual increase in the population of working age (aged 16 to 64) will be very small between 2006 and 2026: an increment of about 10,300 people. However, there are various reasons for assuming that the potential workforce will grow more quickly than these data initially suggest. Three are especially important:

- first, activity rates have been rising and are expected to rise further, particularly for women (of all ages) and for men (aged over 50). Making an allowance for rising activity rates takes the projected increase in the economically active population to 44,800<sup>2</sup>
- second, and in addition, changing pensions provision and retirement ages will mean that more people work for longer. Factoring in this second assumption takes the increase in the economically active population to 52,800 by 2026<sup>3</sup>
- third, further pressures arising from the shortages in the working age population, additional changes to the retirement age and policies to address worklessness could lead to a modest increase in activity rates above trend, taking the increase in the economically active population up to 97,000 by 2026.

### Expected growth in employment

- 2.3 But how many workers are businesses and other employers within the *Hampshire Economic Area* likely to need? A number of different estimates have been made, including those

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<sup>1</sup> Note that these figures are consistent with those in the main Hampshire Economic Assessment, 2010. They are different from those reported elsewhere in the Extended Evidence document for the reasons explained in the context of Theme 4

<sup>2</sup> Note that this increase simply reflects the trend-based changes to economic activity rates and the equalisation of male and female retirement ages, published by ONS in 2006. See [http://www.statistics.gov.uk/downloads/theme\\_labour/projections\\_LMTJan06.pdf](http://www.statistics.gov.uk/downloads/theme_labour/projections_LMTJan06.pdf)

<sup>3</sup> 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](http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_4017919)

produced by Hampshire County Council (using Cambridge Econometrics' Local Economy Forecasting Model - LEFM) and PUSH (based on Oxford Economics' forecasting work).

- 2.4 All sorts of assumptions have to be made to generate employment projections and looking across the different economic projections used in this assessment, a preferred scenario indicates with regard to employment growth over the period 2006-2026 an increment of about 87,000 jobs. Around 51,000 of these are expected to be in South Hampshire, with about 18,000 in both of the other sub-areas. This scenario incorporates projections for South Hampshire drawn from the DTZ preferred scenario for PUSH. This scenario suggest a higher economic growth which will depend on the successful implementation of the *PUSH Economic Development Strategy*. The *North* and *Central Hampshire/New Forest* projections have been prepared by Hampshire County Council using LEFM<sup>4</sup> and assume no additional policy interventions over the forecasting period.

### The balance between workers and jobs

- 2.5 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 2-1: Comparison of workers and jobs, 2006-2026<sup>5</sup>

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

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

- 2.6 By drawing on a range of different sources, Table 2-1 provides a “best guess” in terms of the likely increases in both workers and jobs over the period to 2026. For the *Hampshire Economic Area* as a whole, it indicates a shortfall in terms of available workers. However this shortfall is relatively small and it would be offset by a modest (5%) increase in activity rates above trend (as shown by the middle column of Table 2-1). At a sub-area level, the picture is more complicated:

- 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 and probably therefore difficult to increase further. The skills base in this area is already strong –

<sup>4</sup> Consistent with DTZ baseline projections

<sup>5</sup> Numbers in the table do not sum because of rounding

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. 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 that 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<sup>6</sup>.

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

## Projections of economic growth

2.8 Assuming businesses can find the workers they need, LEFM provides an insight into future economic output. Headline data from LEFM projections, which reflect the PUSH economic development strategy for *South Hampshire*, are captured in Table 2-2. 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.

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<sup>6</sup> PUSH Economic Development Strategy, November 2010: Transformational Action 2

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

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

Source: Data provided by Hampshire County Council

2.9 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 2-2 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. What is clear, however, is that banks’ lending regimes over the next period will be a good deal more restrictive than those which characterised the last decade and, to the extent that growth is financed through credit, there must be consequences in terms of GVA growth
- 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<sup>7</sup>. It is unlikely that the *Hampshire Economic Area* will buck the national trend.

## Structural changes

- 2.10 Another aspect of future changes in the economy of the *Hampshire Economic Area* is the structural composition and the dependence on the public sector. The latest projections based on the LEFM model suggest that over the next 15 years, the *Hampshire Economic Area* will see relative increases of employment in construction, distribution, hotels and catering and in financial and business services. The latter sector should relatively increase its share in total employment by around 4.8pps. On the other hand, government and other services will face the highest decline in the share of total employment, going down from 32.4% in 2010 to 29.9% in 2026. Despite the fall in relative terms, in the long term the public sector is projected to grow beyond its current levels.
- 2.11 However, it is important to note that in the short to medium term, the government and other services sector will see a decrease in its share of employment. It accounts for around 32.35% of total employment and will go down to around 30.88% in 2016, when it should reach its lowest level. The sector is projected to start expanding from that point.
- 2.12 The changes in the economic output by sector are greater. The financial and business services sector is going to contribute about 6.8pps more, 34.8% up from 27.9%. This will be partially due to the increasing numbers of jobs but also the higher productivity in this sector. The government and other services will contribute around 19.7% in 2026 down from 23.9% in 2010, a difference of 4.2pps.

Table 2-3: Structural changes between 2010 and 2026

Hampshire Economic Area	Share of total employment (%)		Difference (percentage points)
	2010	2026	
Agriculture etc	1.39	0.76	-0.63
Mining and quarrying	0.06	0.03	-0.02
Manufacturing	8.55	6.97	-1.58
Electricity gas and water	0.41	0.22	-0.19
Construction	6.48	6.86	0.38
Distribution hotels and catering	21.72	22.06	0.34
Transport and communications	5.28	4.98	-0.30
Financial and business services	23.76	28.55	4.78
Government and other services	32.35	29.94	-2.41
Total	100.00	100.00	0.00

  

Hampshire Economic Area	Share of total Real (CVM) Value Added		Difference
	2010	2026	
Agriculture etc	0.34	0.23	-0.12
Mining and quarrying	0.07	0.05	-0.02

<sup>7</sup> See [http://budgetresponsibility.independent.gov.uk/d/pre\\_budget\\_forecast\\_140610.pdf](http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf)

Hampshire Economic Area	Share of total employment (%)		Difference (percentage points)
Manufacturing	11.59	10.86	-0.72
Electricity gas and water	6.80	2.88	-3.93
Construction	5.83	5.89	0.06
Distribution hotels and catering	15.34	16.75	1.41
Transport and communications	8.25	10.10	1.85
Financial and business services	27.92	34.75	6.83
Government and other services	23.86	19.65	-4.21
Total	100.00	100.00	0.00

Source: HCC, based on LEFM

## Leading sectors

- 2.13 Economic projections from LEFM suggest that in the period to 2026, the *Hampshire Economic Area* economy will 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 the northern sub-area. The southern and central sub-areas are expected to grow at a slightly lower rate where growth will depend more on increase in employment.
- 2.14 The overall **economic growth** in the *Hampshire Economic Area* is expected to be led by growth in professional services, computing services and communications. Other sectors include distribution, retail, banking and finance, health and social work and other business services. These are the sectors that will see the highest absolute increase in their value added.
- 2.15 In terms of **employment change**, sectors such as hotels and catering, computing services, professional services, other business services, health and social work and miscellaneous services will contribute most to the future employment growth in the area.
- 2.16 On the other hand, sectors, such as manufacturing of fuels, pharmaceuticals, electronics, motor vehicles, electricity, gas supply and communications are expected to grow mostly due to increasing **productivity**.
- 2.17 Some of the above listed high growth sectors like pharmaceuticals, electronics, motor vehicles, computing services are within the priority sectors. These could be supported further to facilitate their expansion and contribution to job creation and economic growth in the *Hampshire Economic Area*. These sectors are also similar to the ones analysed in greater detail 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.
- 2.18 However, the above projections do not take full account of the planned changes in public spending announced within the Comprehensive Spending Review. As suggested by forecasters<sup>8</sup>, the spending cuts will have some impact on their previously prepared forecasts, although some changes have already been incorporated. At the national level the adjustment made to the forecasts will mainly negatively affect growth within the construction and public administration and defence sectors but also indirectly business services. Conversely, transport equipment may actually see better growth prospects than in previous forecasts.

<sup>8</sup> Experian, Local Market Forecasts