

Chapter 10: Economic Projections

The Heart of the South West Local Enterprise Partnership (LEP), of which Somerset is a part, has access to an economic projections model provided by Oxford Economics. This model projects the current economic picture forward to give an indication of future performance if current conditions were to continue without policy intervention. The model also allows for the ‘testing’ of policy scenarios and their potential impact on the direction of the economy.

The baseline data within the model is updated regularly, the most recent version being from May 2015. When the model is updated, it generates a set of baseline data which is ‘policy neutral’; applying current conditions and projecting the general trend into the future without taking into account any economic investment or policy interventions. The analysis within this chapter is based upon the baseline output from the model in May 2015. It is policy neutral and gives an indication of the direction the economy could take without intervention. Policy and investment options require testing using various scenarios within the model and they are beyond the scope of this report. The analysis below should be read as a general indication of what economic conditions could look like if they continue on their current path.

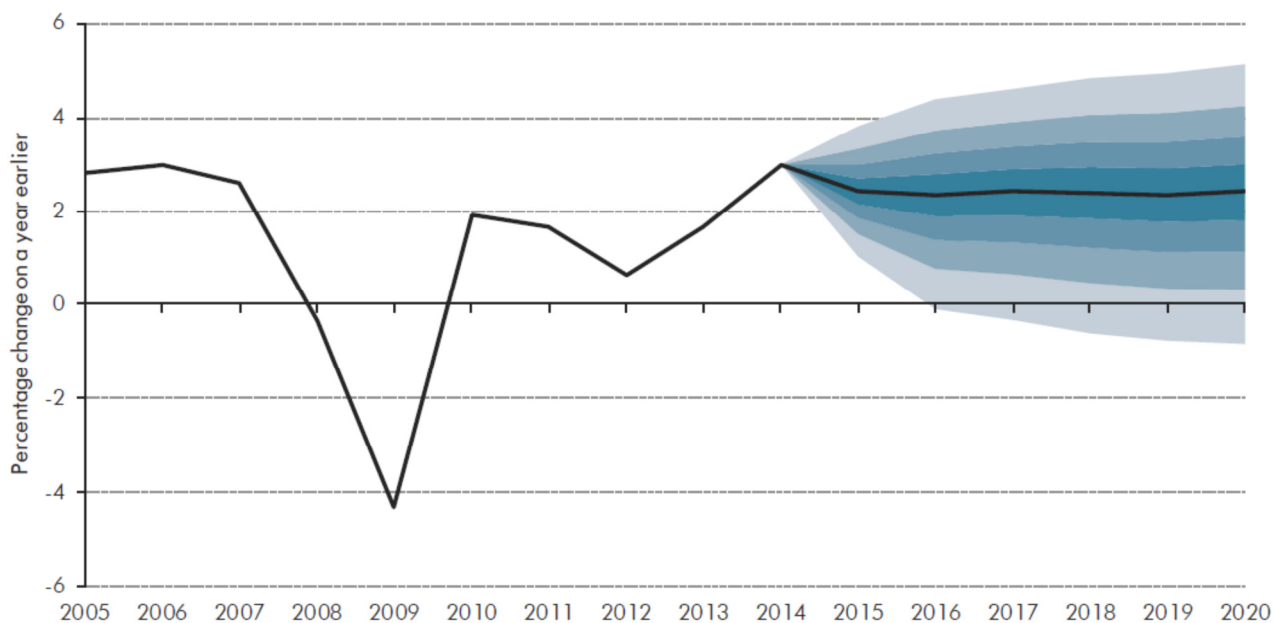
Key facts

- Without policy intervention, by 2030, the Somerset economy is expected to be worth £13.892bn; growth of 44.9% from its 2014 level.
- Without policy intervention the productivity gap between Somerset and the UK is expected to persist and even increase over the period to 2030.
- Without policy intervention the number of jobs in Somerset is projected to increase by 8% in the period to 2030, compared to 9.5% nationally.
- Knowledge-intensive sectors will continue to be important to the Somerset economy. The professional services sector has the highest projected GVA growth in the County (+91.2%), closely followed by scientific and technical industries with 89.5% and the information and communication sector (+83.8%).

National context

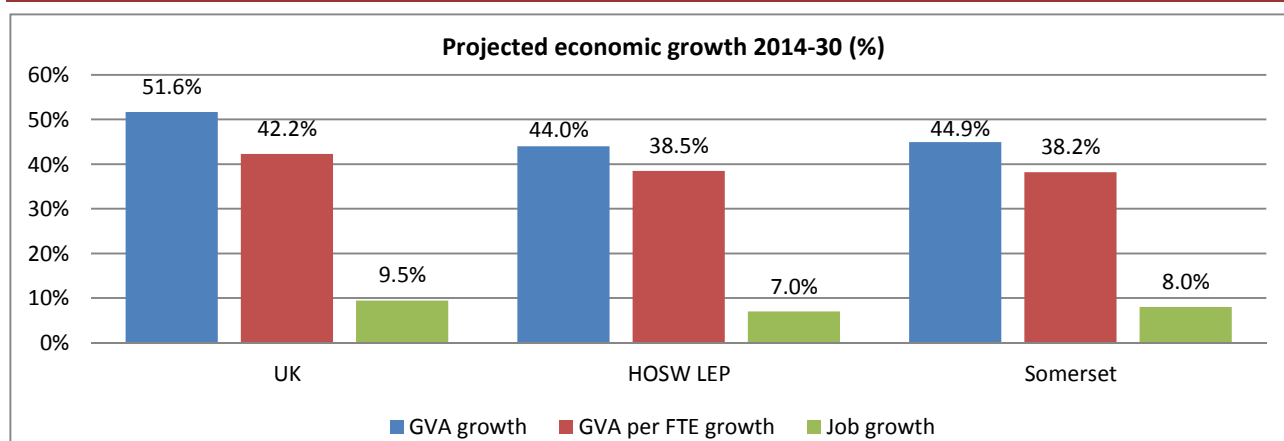
- In the first quarter of 2015, UK GDP is estimated to have increased by 0.4 per cent on the previous quarter. That is below the 0.7 per cent forecast in March and down from 0.8 per cent in the final quarter of 2014. The lower contribution from the services sector was a key reason behind this lower growth.
- The OBR expects GDP growth to pick up to 0.6 per cent in the second and third quarters, unchanged from the March forecast. The in-year cuts to public spending announced in June are expected to affect the economy late in the fiscal year and the OBR have assumed the effects will be sufficient to push quarterly GDP growth down to 0.5 per cent in the final quarter of 2015 and first quarter of 2016. These changes leave GDP growth in 2015 as a whole at 2.4 per cent, slightly below the March forecast and largely reflecting the weaker than expected first quarter data.
- The OBR’s GDP growth forecast is shown below. The distribution surrounding it shows the probability of different outcomes based on past forecast accuracy. The solid black line shows the median forecast, with successive pairs of lighter shaded areas around it representing 20 per cent probability bands.²⁶

²⁶ Source: Economic and Fiscal Outlook – July 2015, Office for Budget Responsibility (pp. 45-49). Chart 3.15, p.49 shown.



Source: ONS, OBR

Somerset Overview



Somerset's top 10 projected growth sectors: Total GVA (£m at 2011 prices)

Industry sector (Blue = Production/manufacturing, Red = services)	% growth 2014-30	Average annual growth 2014-30
Professional services	91.2%	5.7%
Scientific & technical	89.5%	5.6%
Information and communication	83.8%	5.2%
Administrative and support services	78.1%	4.9%
Real estate activities	61.6%	3.9%
Wholesale & retail trade & repair of motor vehicles & motorcycles	59.6%	3.7%
Retail trade, except of motor vehicles & motorcycles	58.9%	3.7%
Food & beverage services	56.6%	3.5%
Accommodation	51.8%	3.2%
Transportation and storage	51.6%	3.2%

Somerset's top 10 projected growth sectors: Productivity (GVA per FTE)

Industry sector (Blue = Production/manufacturing, Red = services)	% growth 2014-30	Average annual growth 2014-30
Electricity, gas, steam and air conditioning supply	64.2%	4.0%
Information and communication	63.3%	4.0%
Scientific & technical	59.9%	3.7%
Mining and quarrying	59.8%	3.7%
Professional services	58.5%	3.7%
Aerospace	53.7%	3.4%
Marine	53.6%	3.3%
Food, drink & tobacco	52.8%	3.3%
Advanced manufacturing (excluding aerospace & marine)	52.8%	3.3%
Administrative and support service activities	52.4%	3.3%

Somerset's top 10 projected growth sectors: Jobs (000s)

Industry sector (Blue = Production/manufacturing, Red = services)	% growth 2014-30	Average annual growth 2014-30
Professional services	25.7%	1.6%
Arts, entertainment and recreation	25.1%	1.6%
Scientific & technical	24.8%	1.6%
Administrative and support service activities	24.8%	1.5%
Real estate activities	22.5%	1.4%
Construction	21.9%	1.4%
Other service activities	20.1%	1.3%
Transportation and storage	15.7%	1.0%
Information and communication	14.2%	0.9%
Food & beverage services	12.5%	0.8%

Source: Heart of the South West LEP Model, Oxford Economics 2015

Overall economic growth

- By 2030, the Somerset economy is expected to be worth £13.892bn. Analysis based upon projections from the Oxford Economics model shows that the total value of Somerset's economy (GVA) is expected to grow by 44.9% by 2030. This is a slower rate of growth than the UK as whole (51.6%) but slightly higher than across the LEP area (44%).
- The productivity gap between Somerset and the UK is expected to persist and even increase over the period to 2030. Somerset's productivity growth in terms of economic value generated per full-time equivalent job is projected to be 38.2%, whereas the UK is expected to see an increase of 42.2% over the same period.
- The number of jobs in Somerset is projected to increase by 8% in the period to 2030, compared to 9.5% nationally and 7% across the LEP area.

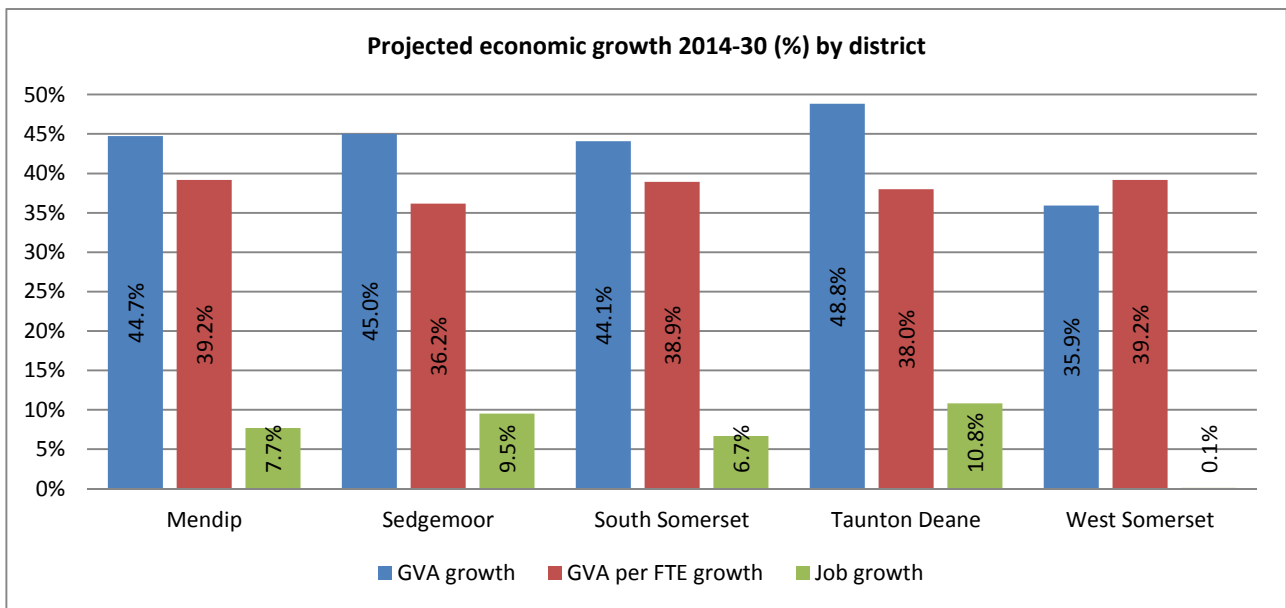
Growth sectors

- The industry sectors expected to show the most growth in Somerset differ depending on whether projections are examined for total GVA, productivity or jobs. In overall GVA terms, the 10 sectors expected to grow the most in the period to 2030 are all service-based.
- The professional services sector comes out on top, with projected GVA growth of 91.2% to 2030, closely followed by scientific and technical industries with 89.5%. The information and communication sector is also expected to grow strongly (83.8%), showing the importance of knowledge-intensive sectors to the Somerset economy.
- In productivity terms, manufacturing industries feature strongly in the top 10 projected growth sectors in Somerset. Electricity and gas supply is expected to show greatest productivity growth to 2030

(64.2%), although the value of this sector is heavily reliant on the price of the supplied commodity which is likely to reflect an element of the industry’s growth potential. The productivity of aerospace and other advanced manufacturing industries is also projected to grow by 50%+ in the period to 2030.

- The importance of the information and communication and scientific and technical industries can also be seen in productivity terms, with projected growth of 63.3% and 59.9% respectively.
- As well as strong projected overall GVA growth, professional services also come top of the list in terms of expected job growth to 2030. Employment in the sector in Somerset is projected to grow by 25.7% over the period. Strong employment growth is also projected in the arts, entertainment and recreation sector (+25.1%) although these are likely to be lower value jobs, as the sector shows a modest increase in overall GVA (+40.9%) compared to others in the County.

Local trends (Districts)



Source: Heart of the South West LEP Model, Oxford Economics 2015

GVA

- Taunton Deane district is projected to have the highest GVA growth of all the Somerset districts in the period to 2030 (+48.8%), exceeding the Somerset growth rate (+44.9%). West Somerset’s economy has the lowest level of expected GVA growth over the period (+35.9%).

Productivity

- Productivity is expected to increase the most in Mendip and West Somerset (+39.2%) in the period to 2030, compared to 38.2% for the County as a whole. Sedgemoor is expected to see the lowest productivity growth of all the districts (36.2%).

Employment

- The strongest employment growth of all the districts is projected to occur in Taunton Deane, with 10.8% more jobs by 2030. Sedgemoor is also expected to show strong employment growth over the period (+9.5%), compared to 8% across Somerset as a whole.
- The number of jobs in West Somerset is projected to remain constant, with only a 0.1% increase projected by 2030. Given that productivity in the district is expected to increase strongly in the district, this suggests businesses will need to innovate and expand production to achieve this improvement. It may also be a necessary reflection of the projected decline in the working age population of the area (see Chapter 1).

DATA TABLES Chapter 10: Economic Projections

Projected economic growth in Somerset by sector (2014-2030)

	Total GVA (£m, 2011 prices)			Productivity (GVA per FTE, £ 2011 prices)			Employment (Jobs, 000s)		
	2014	2030	Growth 2014-30 (%)	2014	2030	Growth 2014-30 (%)	2014	2030	Growth 2014-30 (%)
A : Agriculture, forestry and fishing	187.9	219.4	16.8%	24,731	34,488	39.5%	8.8	7.2	-17.8%
B : Mining and quarrying	72.4	71.3	-1.6%	134,561	214,993	59.8%	0.5	0.3	-38.4%
C : Manufacturing	1,644.8	2,136.8	29.9%	55,682	85,036	52.7%	31.0	26.1	-15.6%
Advanced manufacturing (excluding aerospace & marine)	425.9	553.8	30.0%	60,738	92,800	52.8%	7.4	6.2	-15.6%
Aerospace	314.2	408.3	30.0%	64,038	98,440	53.7%	5.0	4.2	-15.6%
Marine	1.7	2.3	30.0%	55,982	85,980	53.6%	0.0	0.0	-15.6%
Food, drink & tobacco	367.6	476.9	29.7%	49,062	74,982	52.8%	7.8	6.6	-15.7%
Other manufacturing	535.4	695.5	29.9%	53,024	80,629	52.1%	10.8	9.1	-15.7%
D : Electricity, gas, steam and air conditioning supply	107.0	142.2	32.8%	83,454	137,046	64.2%	1.3	1.0	-19.1%
E : Water supply; sewage, waste management and remediation activities	143.7	196.8	37.0%	90,864	137,444	51.3%	1.7	1.5	-9.3%
F : Construction	723.7	1,036.0	43.2%	35,067	42,129	20.1%	22.2	27.1	21.9%
G : Wholesale and retail trade; repair of motor vehicles and motorcycles	1,167.9	1,859.0	59.2%	35,615	52,650	47.8%	41.9	45.9	9.7%
Wholesale & retail trade & repair of motor vehicles & motorcycles	509.4	812.8	59.6%	43,596	63,595	45.9%	12.8	14.1	10.1%
Retail trade, except of motor vehicles & motorcycles	658.5	1,046.3	58.9%	31,197	46,440	48.9%	29.1	31.8	9.5%
H : Transportation and storage	341.2	517.2	51.6%	37,657	50,145	33.2%	9.8	11.4	15.7%
I : Accommodation and food service activities	337.4	522.4	54.9%	22,617	33,069	46.2%	21.1	23.5	11.5%
Accommodation	121.5	184.4	51.8%	23,771	34,220	44.0%	6.4	7.0	9.2%
Food & beverage services	215.8	338.0	56.6%	22,015	32,473	47.5%	14.7	16.5	12.5%
J : Information and communication	235.2	432.4	83.8%	49,957	81,584	63.3%	5.2	6.0	14.2%
K : Financial and insurance activities	211.5	307.6	45.4%	72,602	108,396	49.3%	3.4	3.3	-2.6%
L : Real estate activities	999.2	1,615.1	61.6%	282,766	405,512	43.4%	4.6	5.7	22.5%
M : Professional, scientific and technical activities	491.8	939.4	91.0%	32,794	52,019	58.6%	17.4	21.8	25.6%
Professional services	447.0	854.6	91.2%	32,510	51,534	58.5%	15.9	20.0	25.7%
Scientific & technical	44.8	84.9	89.5%	35,932	57,470	59.9%	1.5	1.9	24.8%
N : Administrative and support service activities	346.5	617.1	78.1%	31,345	47,781	52.4%	13.9	17.4	24.8%
O : Public administration and defence; compulsory social security	580.8	671.1	15.5%	57,919	72,951	26.0%	11.4	10.3	-9.4%
Administration of the State, economic & social policy of the community	311.6	358.1	14.9%	75,054	97,593	30.0%	5.0	4.4	-12.6%
Provision of services to the community as a whole	254.9	296.7	16.4%	45,853	56,551	23.3%	5.9	5.5	-6.5%
Compulsory social security activities	14.3	16.3	14.0%	45,136	57,533	27.5%	0.4	0.4	-11.9%
P : Education	708.5	792.0	11.8%	40,503	44,803	10.6%	23.9	24.1	0.8%
Q : Human health and social work activities	905.6	1,301.2	43.7%	30,567	41,001	34.1%	40.3	44.0	9.2%
R : Arts, entertainment and recreation	105.0	147.9	40.9%	21,533	28,769	33.6%	7.5	9.3	25.1%
S : Other service activities	276.4	367.1	32.8%	40,192	46,954	16.8%	8.6	10.3	20.1%
Total	9,586.5	13,892.0	44.9%	42,787	59,123	38.2%	274.4	296.3	8.0%

Source: Heart of the South West LEP Economic Model, Oxford Economics 2015

Projected economic growth (2014-2030)

		2014	2030	Projected growth 2014-2030		Average annual growth 2014-2030
				Actual	%	
GVA (£m, 2011 prices)	UK	1,455,615.1	2,207,090.1	751,475.0	51.6%	3.2%
	HOSW LEP	29,472.1	42,438.9	12,966.7	44.0%	2.7%
	Somerset	9,586.5	13,892.0	4,305.5	44.9%	2.8%
	Mendip	1,853.8	2,682.8	829.1	44.7%	2.8%
	Sedgemoor	1,712.4	2,483.5	771.1	45.0%	2.8%
	South Somerset	3,067.4	4,420.1	1,352.7	44.1%	2.8%
	Taunton Deane	2,261.5	3,365.8	1,104.3	48.8%	3.1%
	West Somerset	691.4	939.8	248.4	35.9%	2.2%
GVA per FTE (£, 2011 prices)	UK	52,430	74,574	22,144	42.2%	2.6%
	HOSW LEP	42,365	58,671	16,306	38.5%	2.4%
	Somerset	42,787	59,123	16,335	38.2%	2.4%
	Mendip	40,512	56,381	15,869	39.2%	2.4%
	Sedgemoor	40,206	54,754	14,548	36.2%	2.3%
	South Somerset	44,293	61,538	17,245	38.9%	2.4%
	Taunton Deane	43,477	59,992	16,515	38.0%	2.4%
	West Somerset	47,910	66,668	18,759	39.2%	2.4%
Employment (jobs, 000s)	UK	33,330.0	36,486.3	3,156.3	9.5%	0.6%
	HOSW LEP	857.0	917.0	60.0	7.0%	0.4%
	Somerset	274.4	296.3	21.9	8.0%	0.5%
	Mendip	57.3	61.8	4.4	7.7%	0.5%
	Sedgemoor	51.7	56.6	4.9	9.5%	0.6%
	South Somerset	83.2	88.7	5.5	6.7%	0.4%
	Taunton Deane	64.7	71.7	7.0	10.8%	0.7%
	West Somerset	17.5	17.6	0.0	0.1%	0.0%

Source: Heart of the South West LEP Economic Model, Oxford Economics 2015