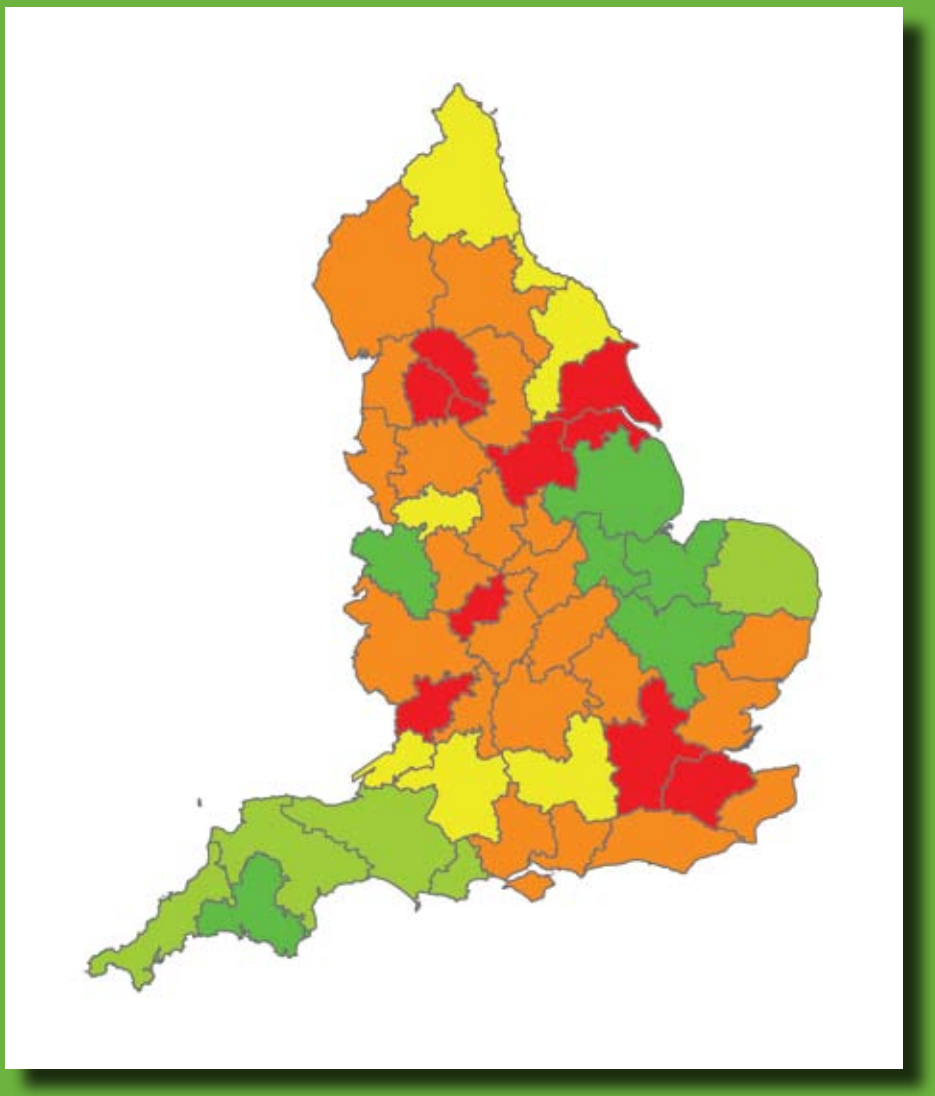
Local Government Association

from recession to recovery:
the local dimension



from recession to recovery: the local dimension

A Paper prepared by

PACEC

on behalf of

Local Government Association

PACEC
Public and Corporate
Economic Consultants
www.pacec.co.uk

49-53 Regent Street
Cambridge CB2 1AB
Tel: 01223 311649
Fax: 01223 362913

504 Linen Hall
162-168 Regent Street
London W1R 5TB
Tel: 020 7734 6699
Fax: 020 7434 0357
e-mail: admin@pacec.co.uk

November 2008
Ref: 080334\Final

Contents

Executive Summary

X1.1 **In a recession, we can expect significant local variations from the average national economic performance. These cannot be fully explained by local variations in the make-up of the economy, or by recent local economic performance. In many places, this local effect is bigger than the effect of economic structure or recent performance. These local variations are strong within regions, too.**

X1.2 **This means that national and regional policies are unlikely to be able to target effectively the areas that will be most in need of help in a recession. The case for devolved economic decision-making becomes more marked under bad economic conditions.**

X1.3 The analysis in this report is based on an assumption that the economy will enter a recession that **reduces GDP by 2.0**% in 2009 and recovers by 0.75% in 2010.

X1.4 This stylised assumption for GDP growth was then used to generate an **estimate of employment change** over the period. Historic correlations between growth and employment suggest that employment might fall by 1.7 million. (This is not a forecast of unemployment, incidentally: employment can fall through workers retiring, migrant workers leaving the country, or workers with more than one job reducing the number of jobs they do).

X1.5 The research then focussed on projecting **the likely local distribution** of the overall impact of a recession. It built on the data for what took place in the recessions of 1979-82 and 1990-92. It also used the 50 functional economic areas of England which we mapped in earlier research published as *Prosperous Communities II*[1] in January 2007.

X1.6 The research began by estimating the impact of a uniform contraction in employment in every place. But this is very unlikely to happen, as different sectors of the economy respond differently to a recession (in particular, sectors that remain internationally competitive like computing and R&D, or where demand is not cyclical, like health and education, will perform better), and the number of jobs in each sector varies from place to place. So we estimated the **local variation in the impact of recession likely to result from the share of 22 different sectors in the economy.** This gave us an initial measure of local vulnerability to recession, or vulnerability index.

X1.7 We then compared this vulnerability index, or structural change in employment, with what in fact took place during the recessions of 1979-82 and 1990-92. It does not explain the **local breakdown of the overall declines in employment which took place on those occasions.**

[1] Prosperous Communties: vive la devolution!, LGA February 2007 http://www.lga.gov.uk/lga/aio/21918

X1.8 We therefore sought to explain the local patterns of employment change in other ways. We analysed twelve indicators as possible predictors of differential performance. The only indicator which showed a relationship with differential employment performance was the differential performance in the two years before the recession started.

X1.9 Finally, we made projections for the overall performance of functional economic areas and analysed them into the elements which could be accounted for by the national slowdown, the structure of the local economy, recent economic performance, and the remaining, otherwise unexplained, local element.

X1.10 This overall Risk Index shows that

- **the projected local variations from the national average performance are very marked**, both for overperforming areas and underperforming areas;
- very strong variations in performance are likely **within individual regions**;
- wholly local factors are, in many places, more important than the sectoral structure of the economy, or recent performance, in predicting differences from the national average.

X1.11 It also shows that

- **London is the region most likely to underperform** the national average in a recession, and the South-West the least;
- **Major cities outside London such as Newcastle, Leeds and Manchester are likely to do better than the capital.**

X1.12 This research strongly suggests that the most effective way of targeting a response to recession in the places it will make the most difference is to continue with the policies of devolving economic decision-making to which the government has committed itself. **In time of a recession, the need for devolution to sub-regions, including counties, functional economic areas, local council partnerships and individual local authorities becomes more obvious and more urgent.**

1 Introduction

1.1.1 In October 2008, the Local Government Association (LGA) invited Public & Corporate Economic Consultants (PACEC) to prepare an analysis of the potential differential geographical impact of the current economic slowdown on towns and cities, regions and sub regions in England. This analysis of the local effects of recession is crucial in order to inform local government as to their role in moving from recession to recovery.

1.1.2 In the first place the analysis focuses on the 9 government office regions (GORs) of England. The small number of these regions makes them ideal for demonstrating the methodology. They are also used to allow comparability with other studies.

1.1.3 However, the main focus of the analysis is on 50 functional economic areas defined in PACEC's 2007 *Prosperous Communities II* study for LGA as being areas in which

- 75% of people who work in an area are residents of that area;
- 75% of an area's residents who work, do so in that area;
- 75% of the goods and services produced in an area are purchased in that area; and
- 75% of the goods and services purchased in an area are produced in that area.

1.1.4 While analysis was performed for 354 English Districts / Unitary authorities, it is not reported here, since the results were both less robust and less clear than for the functional economic areas.

1.1.5 The following chapters in this report set out our research as follows:

- **National Picture**: Estimates of national employment change 2008-2010.
- **Vulnerability Index**: Preliminary estimates of local employment change 2008-2010, taking into account industrial structure.
- **Previous Recessions**: An analysis of local employment change in the 1990-1992 and 1979-1982 recessions.
- **At Risk Index**: More sophisticated estimates of local employment change 2008-2010, taking into account industrial structure and analysis of previous recessions.
- **Conclusions and Recommendations**

2 National Picture

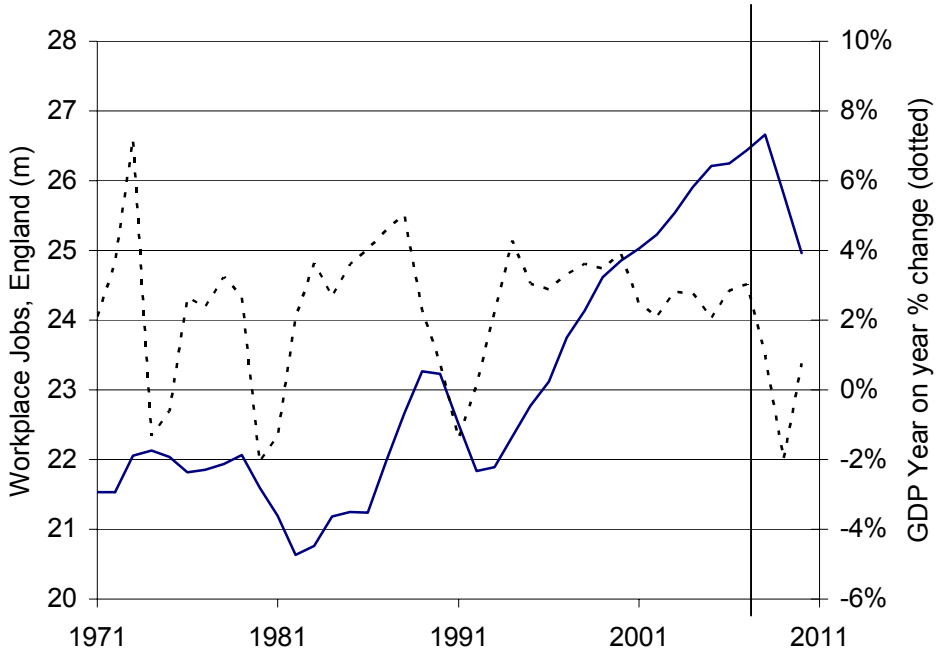
2.1 Overall performance

2.1.1 The anticipated slowdown in the UK economy between 2008 and 2010 is as a result of the following factors:

- Credit crunch
- Slowdown in financial services
- Housing / construction
- Energy / commodity costs
- Consumer spending

2.1.2 Opinions differ among experts as to the overall scale of this slowdown, and estimates have been steadily rising during the autumn. Our estimate of a fall of 2.0% in GDP for 2009 and a rise of 0.75% in 2010 is both in line with recently published forecasts[2], and similar to that experienced in the 1980s recession, as shown in Figure 2.1.

Figure 2.1 Workplace jobs and GDP in England, 1971-2010



Source: Annual Business Inquiry, Annual Population Survey, Office for National Statistics (ONS) with PACEC projections

2.1.3 The past relationship between employment and GDP, shown in Figure 2.1 above, is then used to produce a central estimate of employment change for 2008-2010[3]. This central estimate is of a fall of 1.7 million jobs, or 6% of the total, which is in line with

[2] Bank of England on November 13th forecast a 2% fall in GDP for 2009.
The International Monetary Fund on November 6th forecast a 1.3% fall in GDP for 2009

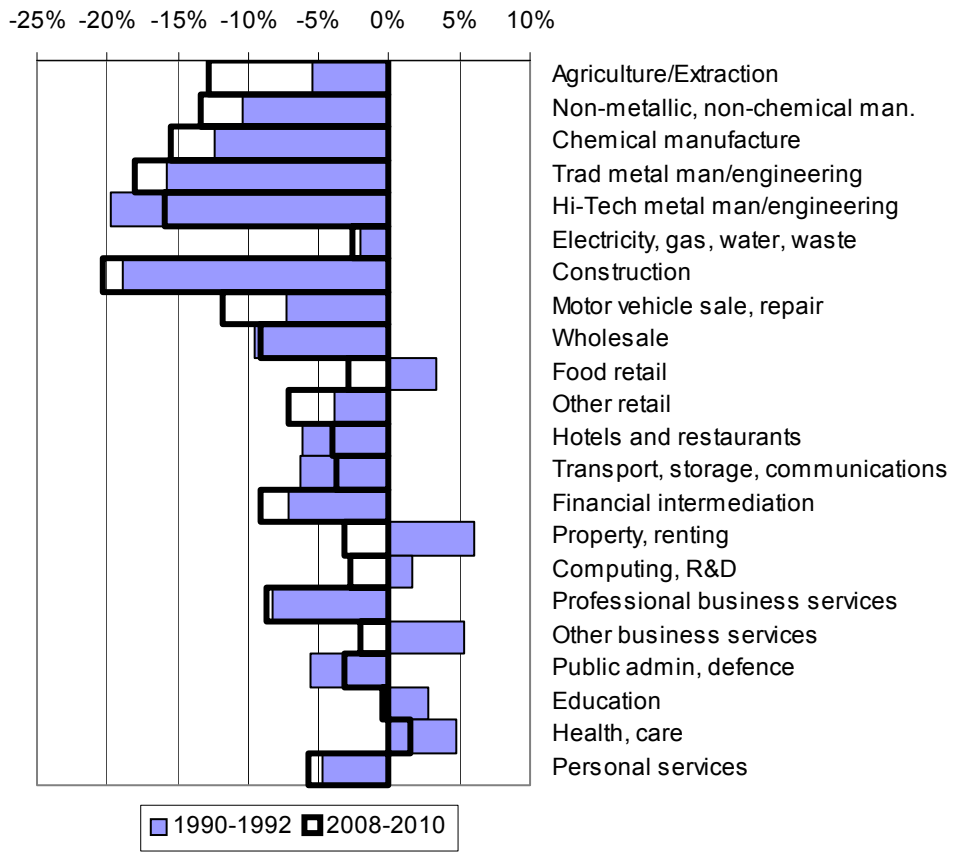
[3] For purposes of clarity in this document the sectoral projections are given in the next section. However, the methodology adopted was to produce estimate for each of 101 sectors. These were then added together to produce an estimate for the economy as a whole.

the falls in 1979-1982 and 1990-92. It should be noted that the focus of this study is on the impact on employment, rather than unemployment.

2.2 Sectoral performance

2.2.1 Different sectors of the economy are likely to perform differently in the slowdown, just as they have performed differently in previous slowdowns. The past relationship between GDP and sectoral employment[4] is used to produce central estimates[5] for the period 2008-2010. These sectoral estimates are given alongside those for the last major down turn in 1990-1992 in Figure 2.2 below.

Figure 2.2 Performance by sector, 1990-1992 and 2008-2010



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

[4] The sectoral estimates were made at a 101 sector level (from the PACEC Local Economic Profiling Database). These were then aggregated to form the 22 sector projections.

[5] A variety of methods were attempted to forecast employment in each sector. In particular a vector based model following Hendry (2006) driven by FTSE, House prices and energy costs was used to predict change in GDP. Our preferred method was to make an estimate of GDP outside the model (on the basis of consensus of forecasters) and use a simpler regression model to estimate employment change in each sector.

2.2.2 As shown in Table 2.1 below, in most cases the estimates for 2008-2010 are between 0 and 3 percentage points lower than for 1990-1992. The fact that this is not uniform is due to the fact that our projections also take into account performance in the 1979-1982 recession[6], and also take into account changes in the underlying trend growth in the sector in the past decade.

Table 2.1 Performance by sector, 1990-1992 and 2008-2010

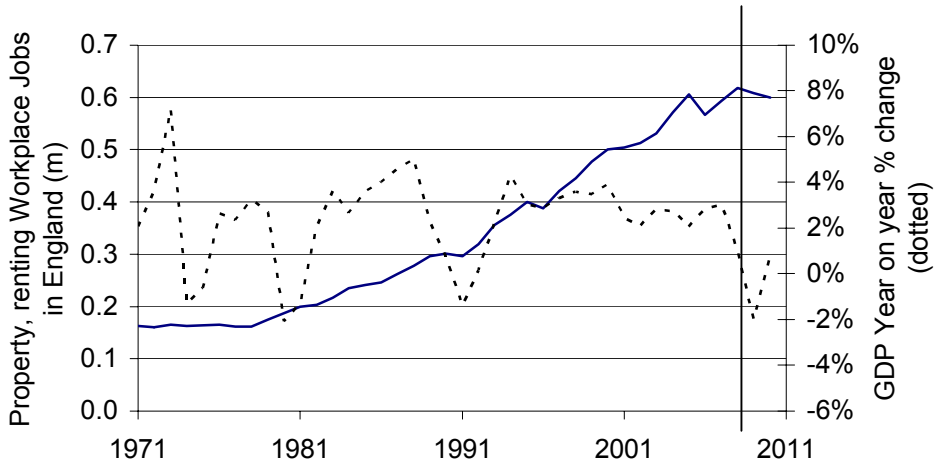
Performance Group	Industry	Change in Employment		
		90-92	08-10	Difference
Medium	Agriculture/Extraction	-5%	-13%	-7%
Low	Non-metallic, non-chemical manufacture	-10%	-13%	-3%
Low	Chemical manufacture	-12%	-16%	-3%
Low	Traditional metal manufacture /engineering	-16%	-18%	-2%
Low	Hi-Tech metal manufacture /engineering	-20%	-16%	4%
High	Electricity, gas, water, waste	-2%	-3%	-1%
Low	Construction	-19%	-20%	-1%
Medium	Motor vehicle sale, repair	-7%	-12%	-5%
Medium	Wholesale	-9%	-9%	0%
High	Food retail	3%	-3%	-6%
Medium	Other retail	-4%	-7%	-3%
Medium	Hotels and restaurants	-6%	-4%	2%
Medium	Transport, storage, communications	-6%	-4%	3%
Medium	Financial intermediation	-7%	-9%	-2%
High	Property, renting	6%	-3%	-9%
High	Computing, R&D	2%	-3%	-4%
Medium	Professional business services	-8%	-9%	0%
High	Other business services	5%	-2%	-7%
Medium	Public admin, defence	-6%	-3%	2%
High	Education	3%	0%	-3%
High	Health, care	5%	2%	-3%
Medium	Personal services	-5%	-6%	-1%
	Overall	-6%	-6%	0%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

[6] For example Hi-Tech metal manufacture / engineering performed particularly well in 1979-1982 compared to other manufacturing sectors which is reflected in the 2008-2010 projection.

2.2.3 For example, the projected decline in employment in Property and Renting reflects the slowdown in employment growth which has occurred since 2000, as shown in Figure 2.3.

Figure 2.3 Employment trends in Property and Renting



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

2.2.4 The performance of each sector in recessions is then rated as being relatively high, medium or low. The performance of these groups of sectors in 2008-2010 is shown in Table 2.2 below alongside their performance in the previous recession.

Table 2.2 Performance by sectoral group, 1990-1992 and 2008-2010

Performance Group	Change in employment			
	1990-1992		2008-2010	
High	226k	3.8%	-75k	-0.8%
Medium	-718k	-6.3%	-837k	-6.6%
Low	-906k	-15.2%	-787k	-17.5%
Total	-1,399k	-6.0%	-1,699k	-6.4%

High: Food Retail, Property, Renting, Computing, R&D, Other business service, Health and Education; **Medium**: Agriculture, Wholesale, Non-Food retail, Hotels and Restaurants, Transport, Financial services, Professional business services, Public admin, Personal services; **Low**: Manufacturing, Construction
Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections (Note: Totals may not sum, due to rounding)

2.2.5 In the 1990-1992 recession, employment grew in all of the sectors in the high performance group. While Health and Care is likely to grow in the 2008-2010 recession and Education is likely to remain stable, we project job losses in the other sectors in the high performance group (Food Retail, Real Estate and Renting, Computing and R&D, and Non-Professional Business Services). However, the rates of job losses in these sectors will be less than the overall overage (of 6.4%), so they remain relatively high performing sectors.

2.2.6 The Manufacturing and Construction sectors, which showed the greatest decline in the 1990-92 recession, are also likely to have the largest job losses between 2008-2010.

2.2.7 The different geographical distribution of different sectors (each with different rates of decline) gives rise to our first estimate of spatial differences in the coming slowdown. This is discussed in the next chapter.

3 Vulnerability Index

3.1 Government office regions

3.1.1 Estimates for the spatial distribution of current (2008) employment by sector are given in Table 3.1 below.

Table 3.1 Structure of industry by region, 2008

Government office region	Share of employment by performance group			
	High	Medium	Low	Total
South East	38%	47%	16%	100%
East	36%	45%	19%	100%
London	34%	57%	9%	100%
South West	36%	47%	17%	100%
West Midlands	35%	44%	20%	100%
East Midlands	35%	43%	22%	100%
Yorkshire and the Humber	35%	44%	20%	100%
North West	36%	46%	18%	100%
North East	37%	44%	19%	100%
England	36%	47%	17%	100%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

3.1.2 The South East of England has the highest concentration of the industries which are the least vulnerable to the recession - 38% of its jobs are to be found in these sectors. The lowest concentration is to be found in London, at 34%. London, however, has by far the lowest concentration of the manufacturing and construction sectors which are the most vulnerable to recession, at just 9% of its jobs total. By contrast, 22% of jobs in the East Midlands and 20% of jobs in the West Midlands are from these low-growth sectors.

3.1.3 This analysis enables us to produce our first preliminary estimates of employment change between 2008 and 2010. These estimates take into account the different spatial distribution of different industries, but do not take into account the different spatial growth rates of these industries, which we shall address later.

3.1.4 The presentation of these preliminary estimates in Table 3.2 below breaks down the overall estimate of change (the third column) into a "National" component (the first column - which is a decline of 6.4% in each case) and a "Structural" component (the second column). This means that London's structural advantage (as laid out in Table 3.1 above), should, taken in isolation, give rise to it losing 34,000 fewer jobs than the national average. The heavy concentration of manufacturing in the East and West Midlands, on the other hand, could lead to increased estimated job losses of 11,000 in each case.

Table 3.2 Vulnerability index by region for 2008-2010

Government office region	Employment change 2008-2010					
	National		Structural		Total Vulnerability	
South East	-278k	-6.4%	2k	0.1%	-276k	-6.3%
East	-182k	-6.4%	-9k	-0.3%	-191k	-6.7%
London	-300k	-6.4%	34k	0.7%	-266k	-5.7%
South West	-167k	-6.4%	0k	0.0%	-167k	-6.4%
West Midlands	-174k	-6.4%	-11k	-0.4%	-185k	-6.8%
East Midlands	-138k	-6.4%	-11k	-0.5%	-150k	-6.9%
Yorkshire and the Humber	-164k	-6.4%	-7k	-0.3%	-170k	-6.6%
North West	-220k	-6.4%	0k	0.0%	-220k	-6.4%
North East	-75k	-6.4%	1k	0.1%	-74k	-6.2%
England	-1.7m	-6.4%	0k	0.0%	-1.7m	-6.4%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

3.2 Functional economic areas

3.2.1 The technique of taking the national expected job loss and adjusting this according to industrial structure can also be applied at finer geographical dis-aggregations, such as PACEC's 50 functional economic areas. The 5 most vulnerable and the 5 least vulnerable areas are shown in Table 3.3.

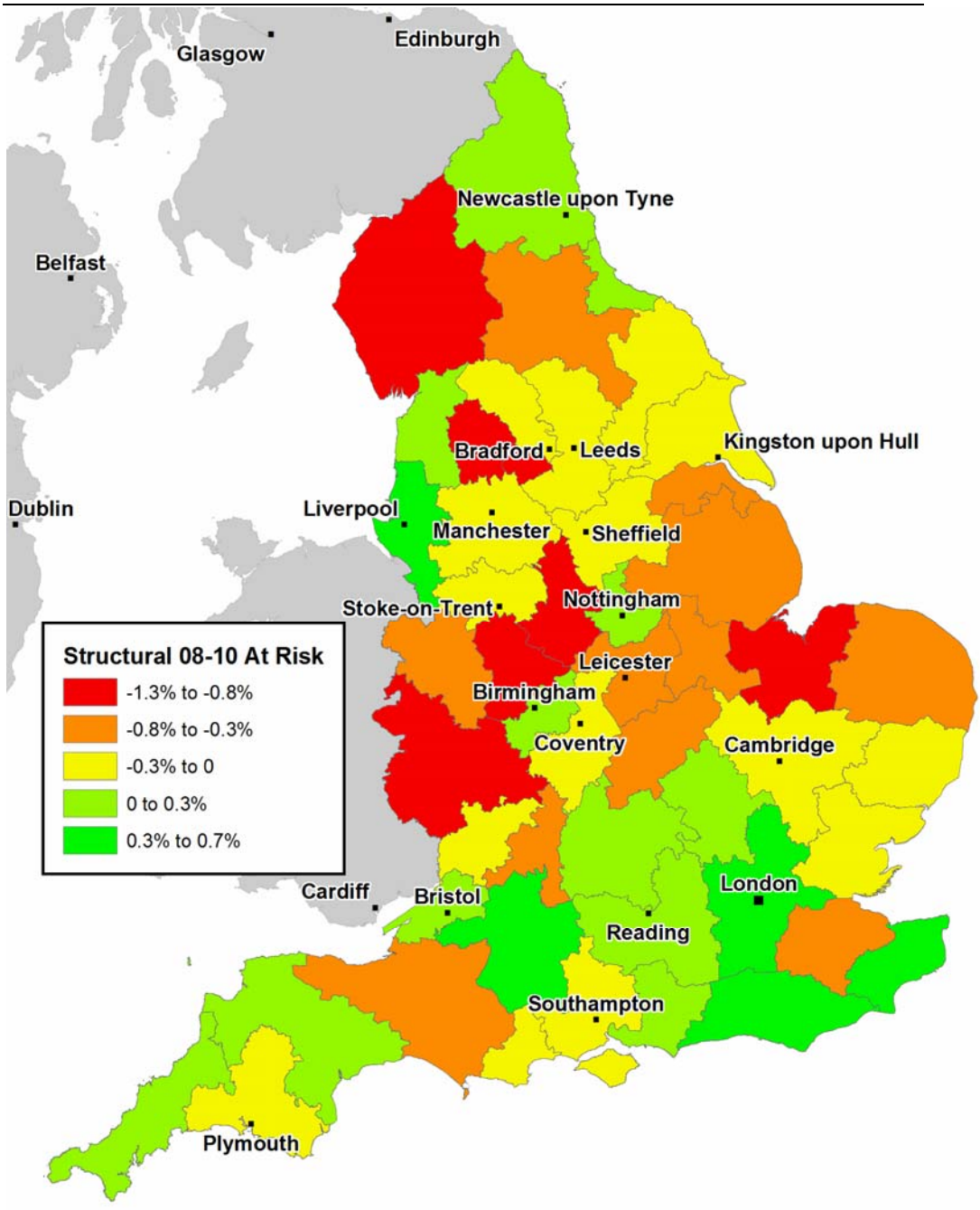
Table 3.3 Most and least vulnerable areas, 2008-2010

Functional economic area	Employment change 2008-2010					
	National		Structural		Total Vulnerability	
King's Lynn and the Wash	-9k	-6.4%	-2k	-1.3%	-11k	-7.6%
Halifax and Huddersfield	-6k	-6.4%	-1k	-1.2%	-7k	-7.6%
Derby and Burton on Trent	-21k	-6.4%	-4k	-1.1%	-24k	-7.4%
Burnley and Blackburn	-15k	-6.4%	-2k	-1.0%	-17k	-7.4%
Wolverhampton and Stafford	-45k	-6.4%	-6k	-0.9%	-51k	-7.3%
Hastings to Worthing	-45k	-6.4%	2k	0.3%	-43k	-6.1%
Bath and Warminster	-19k	-6.4%	1k	0.4%	-18k	-6.0%
Ashford and Margate	-16k	-6.4%	1k	0.4%	-15k	-6.0%
London FEA	-337k	-6.4%	30k	0.6%	-307k	-5.8%
Merseyside and Chester	-53k	-6.4%	5k	0.6%	-47k	-5.7%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

3.2.2 Areas around King's Lynn, Halifax, Derby, Burnley and Wolverhampton are most vulnerable to employment decline, whereas areas around Hastings, Bath, Ashford, London and Merseyside are the least vulnerable.

Figure 3.1 Structural impact component of At Risk Index for 2008-2010



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

3.2.3 As stated above, these estimates do not take into account the different spatial growth rates of these industries. In order to do this we need to investigate what happened in previous recessions, which is covered in the next chapter.

4 Previous Recessions

4.1 Government office regions

4.1.1 If we apply the analysis of the previous chapter to the last recession we can produce estimates, based on the structure of industries, of what change might have occurred between 1990 and 1992. These estimates explain some, but not all, of the changes which *actually* took place during this period. There remains an unexplained change in employment for each area, which is the difference between what actually happened and what the National and Structural estimates would have predicted. We use the term "Differential" to describe this unexplained change, as shown in Table 4.1 below. London experienced the highest rate of differential job losses (3.0%) and the North East experienced the highest rate of differential job gains (2.8%).

Table 4.1 Components of performance by region, 1990-1992

Government office region	Change in employment 1990-1992							
	National		Structural		Differential		Total Actual	
South East	-223k	-6.0%	8k	0.2%	11k	0.3%	-204k	-5.5%
East	-144k	-6.0%	-5k	-0.2%	7k	0.3%	-142k	-5.9%
London	-245k	-6.0%	35k	0.9%	-124k	-3.0%	-334k	-8.2%
South West	-135k	-6.0%	0k	0.0%	40k	1.8%	-95k	-4.2%
West Midlands	-150k	-6.0%	-24k	-1.0%	-10k	-0.4%	-184k	-7.4%
East Midlands	-112k	-6.0%	-11k	-0.6%	35k	1.9%	-89k	-4.8%
Yorks/Humber	-137k	-6.0%	-1k	0.0%	10k	0.5%	-127k	-5.6%
North West	-189k	-6.0%	-4k	-0.1%	1k	0.0%	-192k	-6.1%
North East	-63k	-6.0%	2k	0.2%	30k	2.8%	-32k	-3.0%
England	-1.4m	-6.0%	0k	0.0%	0k	0.0%	-1.4m	-6.0%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

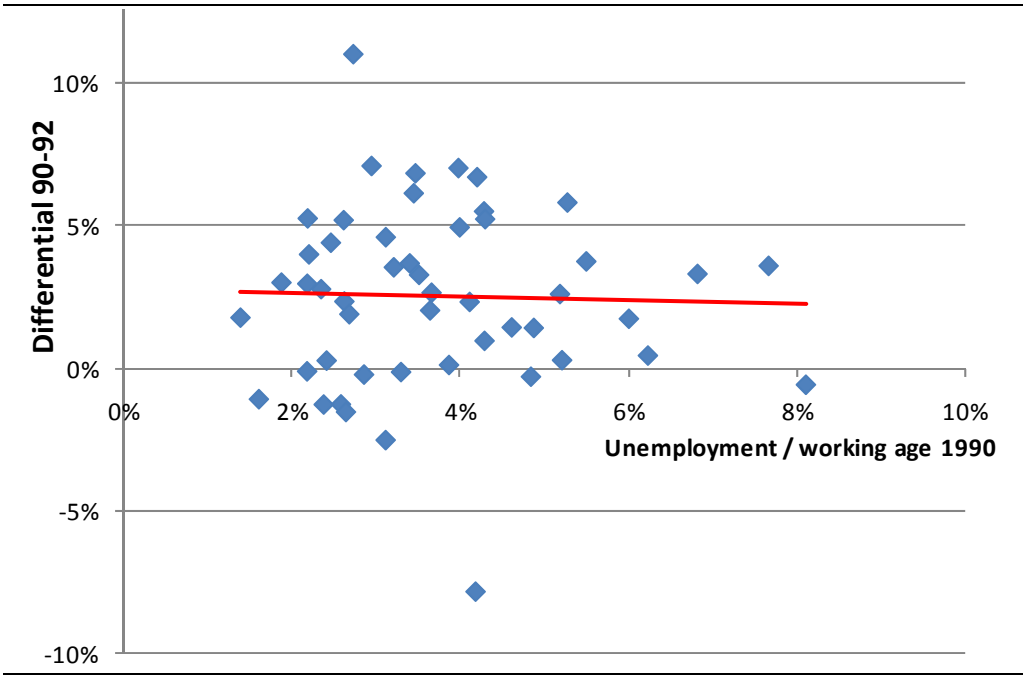
4.1.2 We wish to use this information to be able to predict what will happen in 2008-2010. In order to do so we need to identify what 1990 factors might have been able to predict these differential performances in 1990-1992. We can then use 2008 factors to predict differential performance in 2008-2010.

4.1.3 The following list of (1990) indicators were tested as predictors of differential performance in the period 1990-1992.

- Unemployment
- Long term Unemployment
- Company formation rate
- Occupational structure
- Average earnings
- Proportion of employment in Small and Medium sized Enterprises (SMEs)
- Growth of unemployment
- Population density
- Commuting
- Educational achievement
- House ownership

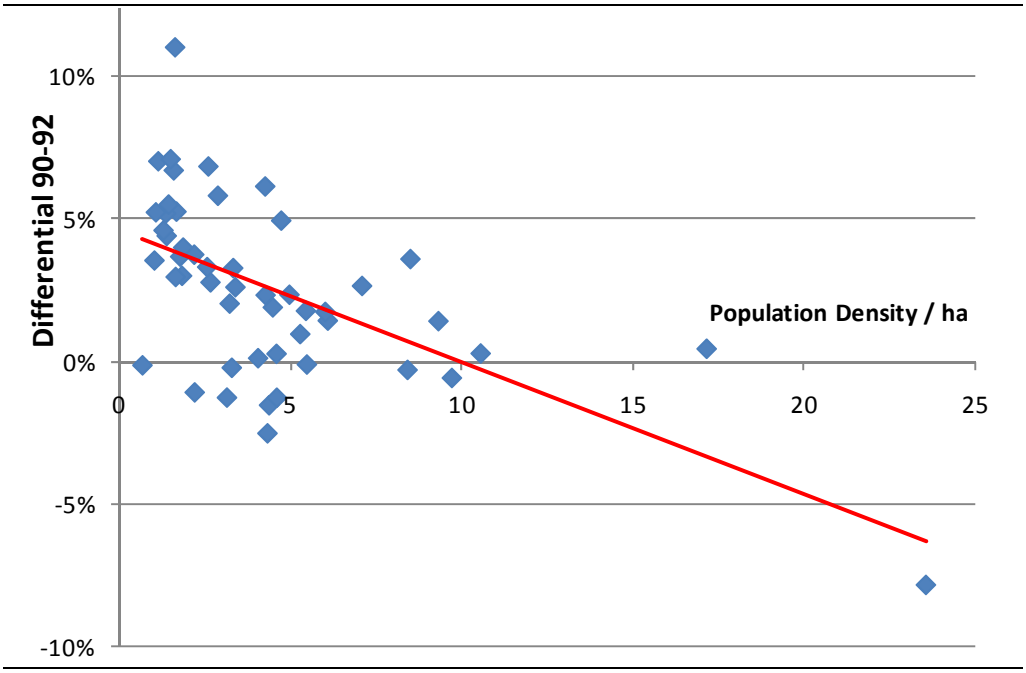
4.1.4 None of the above were found to be a good predictor of differential performance. The plots below in Figure 4.1 and Figure 4.2 are typical of our analysis (the plots here are for functional economic areas).

Figure 4.1 Unemployment as a predicator of differential performance



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

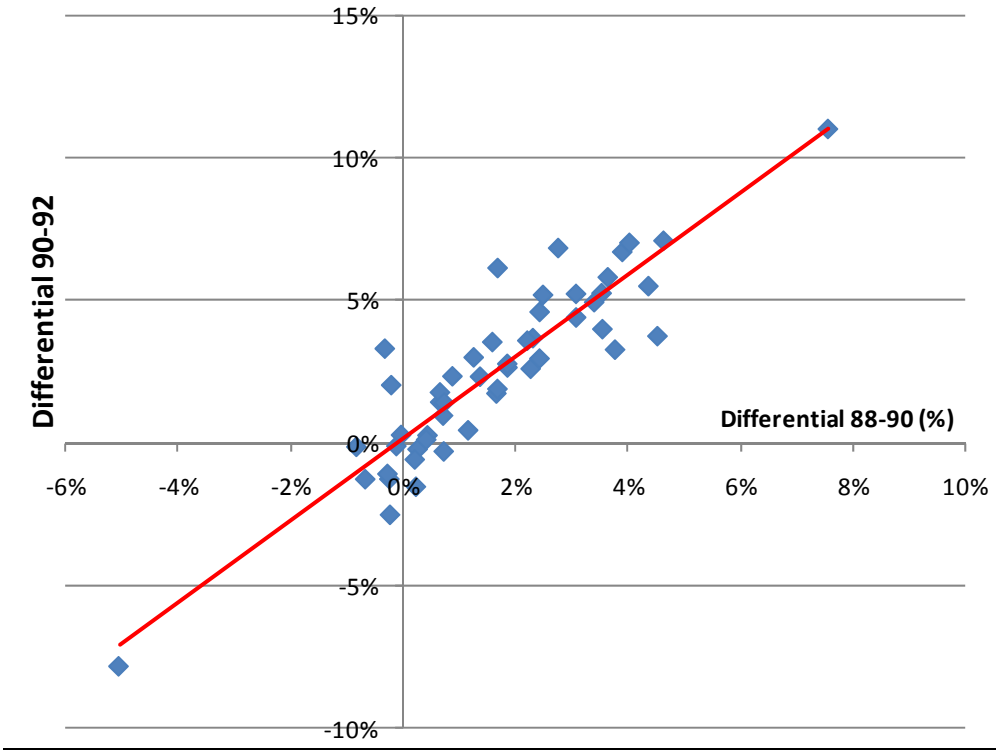
Figure 4.2 Population density as a predicator of differential performance



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.1.5 The only exception was that differential performance for the two year period *prior* to the recession (1988-1990) is a good predictor of differential performance *during* the recession (1990-1992) as shown in Figure 4.3 below.

Figure 4.3 Recent performance as a predicator of future differential performance



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.1.6 This leads to our final analysis of the 1990-1992 slowdown, shown in Table 4.2 below. In it we split the differential into a part which can be explained by recent performance ("Recent") and a part which cannot, which is referred to as the "Local" differential, since it is the performance of the *local* area which cannot be explained by industrial structure or recent performance. Some of London's job losses (0.9% out of 3.0%) can be attributed to recent performance, as can some of the job gains in the South West (0.4% out of 1.8%). However, London and the North East continue to have the largest losses and gains due to local effects (-2.1% and 2.9% respectively).

Table 4.2 Components of performance by region, 1990-1992

Government office region	Change in employment 1990-1992									
	National		Structural		Recent		Local		Actual	
South East	-223k	-6.0%	8k	0.2%	5k	0.1%	7k	0.2%	-204k	-5.5%
East	-144k	-6.0%	-5k	-0.2%	1k	0.1%	6k	0.3%	-142k	-5.9%
London	-245k	-6.0%	35k	0.9%	-38k	-0.9%	-86k	-2.1%	-334k	-8.2%
South West	-135k	-6.0%	0k	0.0%	10k	0.4%	30k	1.4%	-95k	-4.2%
West Midlands	-150k	-6.0%	-24k	-1.0%	8k	0.3%	-18k	-0.7%	-184k	-7.4%
East Midlands	-112k	-6.0%	-11k	-0.6%	5k	0.3%	29k	1.6%	-89k	-4.8%
Yorks/Humber	-137k	-6.0%	-1k	0.0%	7k	0.3%	3k	0.1%	-127k	-5.6%
North West	-189k	-6.0%	-4k	-0.1%	3k	0.1%	-2k	-0.1%	-192k	-6.1%
North East	-63k	-6.0%	2k	0.2%	-1k	-0.1%	30k	2.9%	-32k	-3.0%
England	-1.4m	-6.0%	0k	0.0%	0k	0.0%	0k	0.0%	-1.4m	-6.0%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.1.7 In the absence of being able to use any indicators (in 4.1.3, above) to predict the Local effect in 1990-1992 we then calculate what the Local effect was in 1979-1982, as shown in Table 4.3 below.

Table 4.3 Components of performance by region, 1979-1982

Government office region	Change in employment 1979-1982									
	National		Structural		Recent		Local		Actual	
South East	-200k	-6.5%	35k	1.1%	26k	0.8%	95k	3.1%	-43k	-1.4%
East	-136k	-6.5%	-1k	-0.1%	12k	0.6%	44k	2.1%	-82k	-3.9%
London	-272k	-6.5%	107k	2.6%	-12k	-0.3%	-99k	-2.4%	-276k	-6.6%
South West	-120k	-6.5%	18k	1.0%	5k	0.3%	94k	5.0%	-3k	-0.2%
West Midlands	-159k	-6.5%	-73k	-3.0%	-9k	-0.4%	15k	0.6%	-226k	-9.2%
East Midlands	-115k	-6.5%	-25k	-1.4%	7k	0.4%	11k	0.6%	-122k	-6.9%
Yorks/Humber	-144k	-6.5%	-23k	-1.0%	-13k	-0.6%	-17k	-0.8%	-198k	-8.9%
North West	-209k	-6.5%	-27k	-0.8%	-7k	-0.2%	-87k	-2.7%	-330k	-10.2%
North East	-74k	-6.5%	-10k	-0.9%	-8k	-0.7%	-55k	-4.8%	-148k	-12.9%
England	-1.4m	-6.5%	0k	0.0%	0k	0.0%	0k	0.0%	-1.4m	-6.5%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.1.8 In some cases, such as in London, the Local effects were similar in 1979-1982 (-2.4%) and 1990-1992 (-2.1%). In these cases our central estimate for the 2008-2010

Local effect is to use whichever is smaller of those in the previous recessions (-2.1%). However in others, such as the North East, the Local effect is different in direction – with losses in 1979-1982 (-4.8%) and gains in 1990-1992 (2.9%). In these cases our central estimate is to set the unknown local effect to zero.

Table 4.4 Local recession component of performance by region

Government office region	Change in employment due to Local recession effect		
	1979-1982 (actual)	1990-1992 (actual)	2008-2010 (estimate)
South East	3.1%	0.2%	0.2%
East	2.1%	0.3%	0.3%
London	-2.4%	-2.1%	-2.1%
South West	5.0%	1.4%	1.4%
West Midlands	0.6%	-0.7%	0.0%
East Midlands	0.6%	1.6%	0.6%
Yorks/Humber	-0.8%	0.1%	0.0%
North West	-2.7%	-0.1%	-0.1%
North East	-4.8%	2.9%	0.0%
England	0.0%	0.0%	0.0%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.2 Functional economic areas

4.2.1 The same analysis was also carried out for the functional economic areas. The areas most and least at risk from an adverse local recession effect are shown in Table 4.5 below. The first five areas (around Sheffield, London, Merseyside, Hull and Birmingham) all suffered job losses of at least 1% in both of the last two recessions and are therefore considered at risk in the 2008-2010 recession. The second five areas (around King's Lynn, Shrewsbury, Peterborough, Taunton and Lincoln), all gained at least 2% employment in the past two recessions and are therefore likely to perform well in 2008-2010.

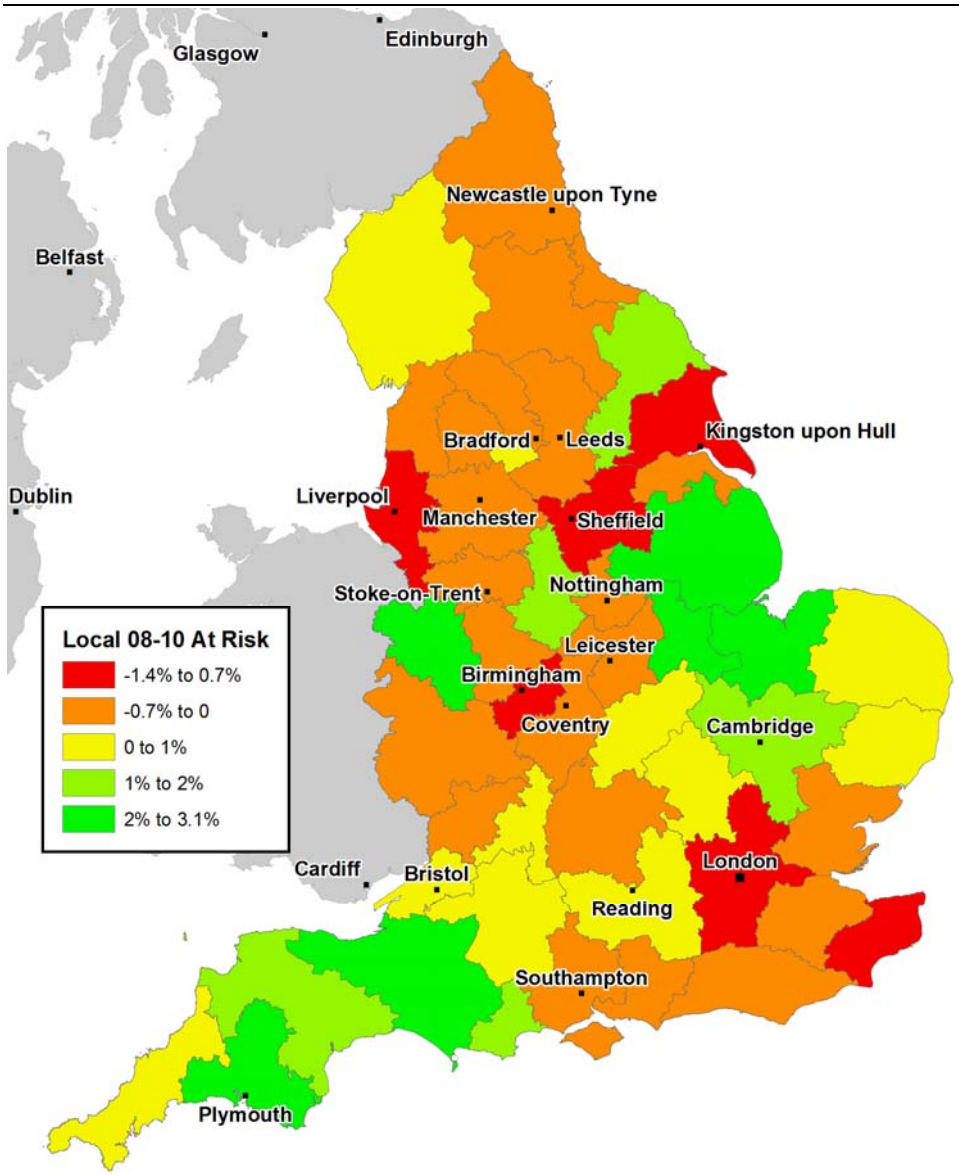
Table 4.5 Most and least at risk from local recession effect

Functional economic area	Change in employment due to local effect		
	1979-1982 (actual)	1990-1992 (actual)	2008-2010 (estimate)
Sheffield and Doncaster	-2%	-1%	-1%
London FEA	-2%	-1%	-1%
Merseyside and Chester	-5%	-1%	-1%
Hull and East Riding	-1%	-1%	-1%
Birmingham and Redditch	-1%	-1%	-1%
King's Lynn and the Wash	5%	3%	3%
Shrewsbury and Telford	3%	3%	3%
Peterborough and Rutland	6%	3%	3%
Taunton and Yeovil	6%	2%	2%
Lincoln and Newark	3%	2%	2%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.2.2 All 50 functional economic areas are shown in Figure 4.4 below. Two low risk areas of the country (in the South West and the East / East Midlands) are particularly striking.

Figure 4.4 Local component of At Risk Index for 2008-2010



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

4.2.3 A full set of maps covering the 1990-1992 recession is found in Appendix A.

4.2.4 This analysis now enables us to improve our estimates of what may happen in 2008-2010 and this is covered in the next chapter.

5 At Risk Index

5.1 Government office regions

5.1.1 Our final estimates of employment change between 2008 and 2010 is made up of the following four components:

- National (from Chapter 2
- Structural (from Chapter 3)
- Recent Differential – which is based on 2004-2006 data as being the most recent available.
- Local Differential (Chapter 4)

5.1.2 In the case of GORs, London has recently performed less well than its structural advantage (shown in Chapter 3) would suggest. We project that this will contribute 0.2 percentage points to job losses in London. The North East has exhibited the strongest recent differential growth, and we estimate that this will contribute 0.5 percentage points of differential jobs growth. The South West has benefitted from the most positive local differential effect during the past two recessions (+1.4%), whereas London has the most negative local differential effect (-2.1%). When all these factors are combined, the result is that London is projected to lose 7.9% of its jobs over the period 2008-10, whereas the South West of England is projected to lose only 5.1% of its jobs.

Table 5.1 Components of performance by region, 2008-2010

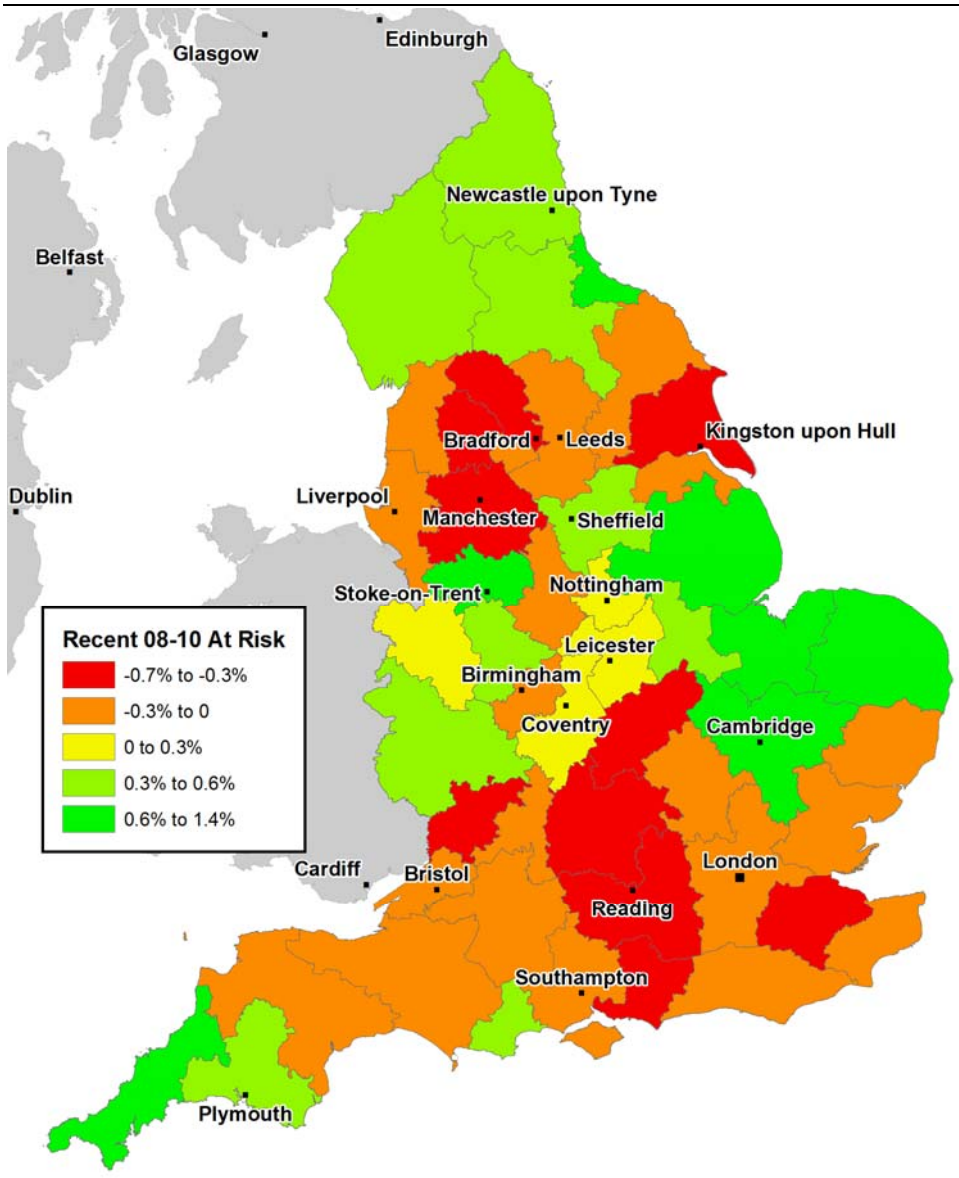
Government office region	Change in employment 2008-2010									
	National		Structural		Recent		Local		Total At Risk	
South East	-278k	-6.4%	2k	0.1%	-7k	-0.2%	8k	0.2%	-276k	-6.3%
East	-182k	-6.4%	-9k	-0.3%	12k	0.4%	7k	0.3%	-172k	-6.0%
London	-300k	-6.4%	34k	0.7%	-9k	-0.2%	-100k	-2.1%	-374k	-7.9%
South West	-167k	-6.4%	0k	0.0%	-2k	-0.1%	35k	1.4%	-134k	-5.1%
West Midlands	-174k	-6.4%	-11k	-0.4%	6k	0.2%	0k	0.0%	-179k	-6.6%
East Midlands	-138k	-6.4%	-11k	-0.5%	6k	0.3%	13k	0.6%	-131k	-6.0%
Yorkshire and the Humber	-164k	-6.4%	-7k	-0.3%	-4k	-0.1%	0k	0.0%	-174k	-6.8%
North West	-220k	-6.4%	0k	0.0%	-8k	-0.2%	-3k	-0.1%	-230k	-6.7%
North East	-75k	-6.4%	1k	0.1%	6k	0.5%	0k	0.0%	-68k	-5.7%
England	-1.7m	-6.4%	0	0.0%	0k	0.0%	0k	0.0%	-1.7m	-6.4%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

5.2 Functional economic areas

5.2.1 Figure 5.1 shows the extent to which different areas are at risk from job losses between 2008-2010 as a result of their recent economic performance. The bands of high risk in the north (Liverpool to Kingston upon Hull) and high risk in the south (including London, Reading Southampton and Bristol) are particularly striking.

Figure 5.1 Recent performance component of At Risk Index for 2008-2010



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

5.2.2 Our overall analysis indicates that areas around Hull, Burnley, Sheffield, Halifax, and Cheltenham are the most at risk from job losses over the period 2010-12, whereas areas around Lincoln, Shrewsbury, Cambridge, Peterborough and King's Lynn are the least at risk in the same period, as shown in Table 5.2.

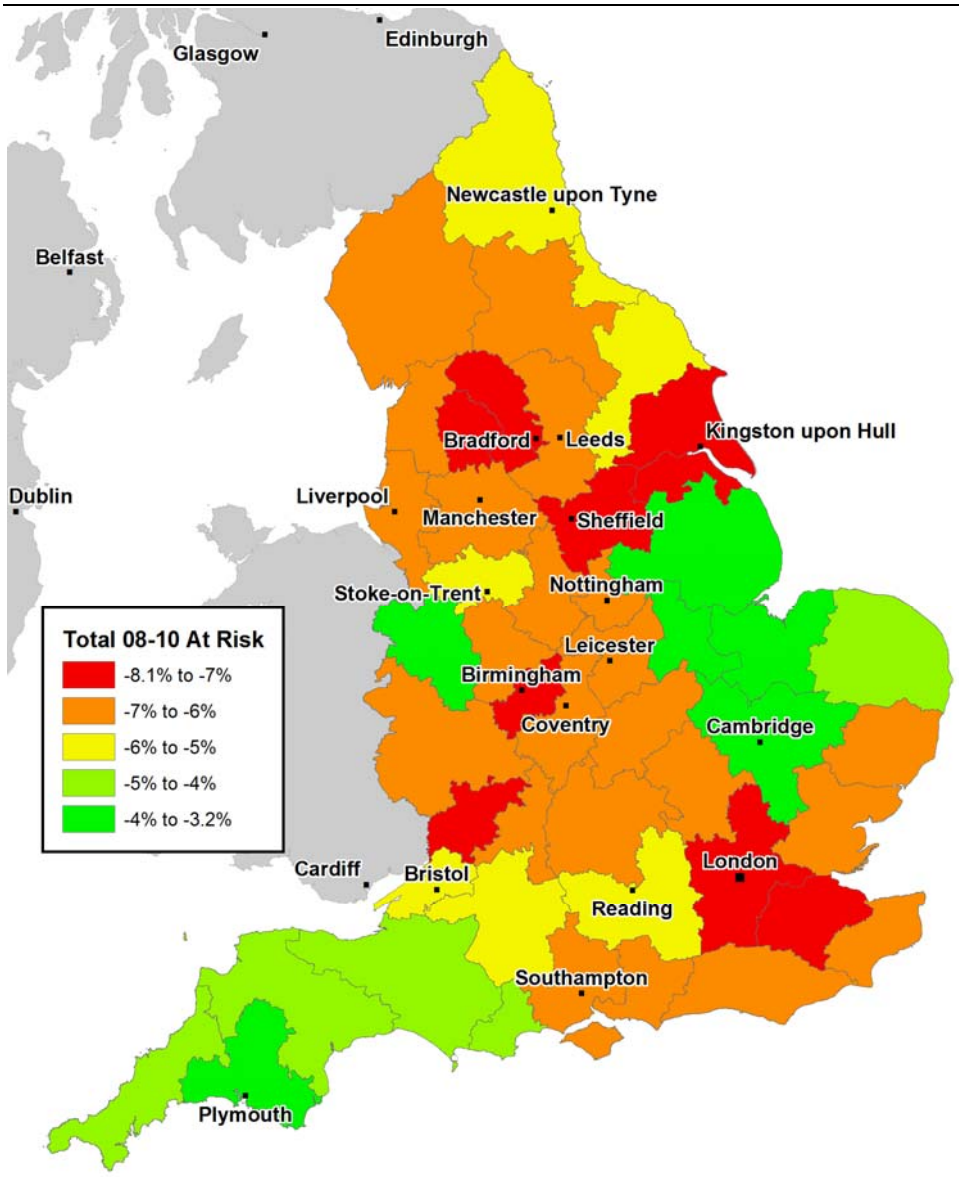
Table 5.2 Most and least at risk areas, 2008-2010

Functional economic area	Change in employment 2008-2010									
	National		Structural		Recent		Local		Total At Risk	
Hull and East Riding	-17k	-6%	-1k	0%	-2k	-1%	-2k	-1%	-21k	-8%
Burnley and Blackburn	-15k	-6%	-2k	-1%	-1k	0%	0k	0%	-18k	-8%
Sheffield and Doncaster	-44k	-6%	-1k	0%	3k	0%	-10k	-1%	-52k	-7%
Halifax and Huddersfield	-6k	-6%	-1k	-1%	0k	0%	0k	0%	-7k	-7%
Cheltenham & Gloucester	-16k	-6%	-1k	0%	-2k	-1%	0k	0%	-18k	-7%
Lincoln and Newark	-17k	-6%	-1k	0%	2k	1%	6k	2%	-10k	-4%
Shrewsbury and Telford	-13k	-6%	-1k	0%	1k	0%	6k	3%	-8k	-4%
Cambridge and Harlow	-35k	-6%	0k	0%	8k	1%	9k	2%	-18k	-3%
Peterborough and Rutland	-12k	-6%	-1k	0%	1k	1%	5k	3%	-6k	-3%
King's Lynn and the Wash	-9k	-6%	-2k	-1%	2k	1%	4k	3%	-5k	-3%

Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC projections

5.2.3 The overall At Risk Index for 2008-2010 for all 50 functional economic areas is shown in Figure 5.2. With the exception of the area around Shrewsbury, all the low risk areas of the country are in the East Midlands / East and the South West.

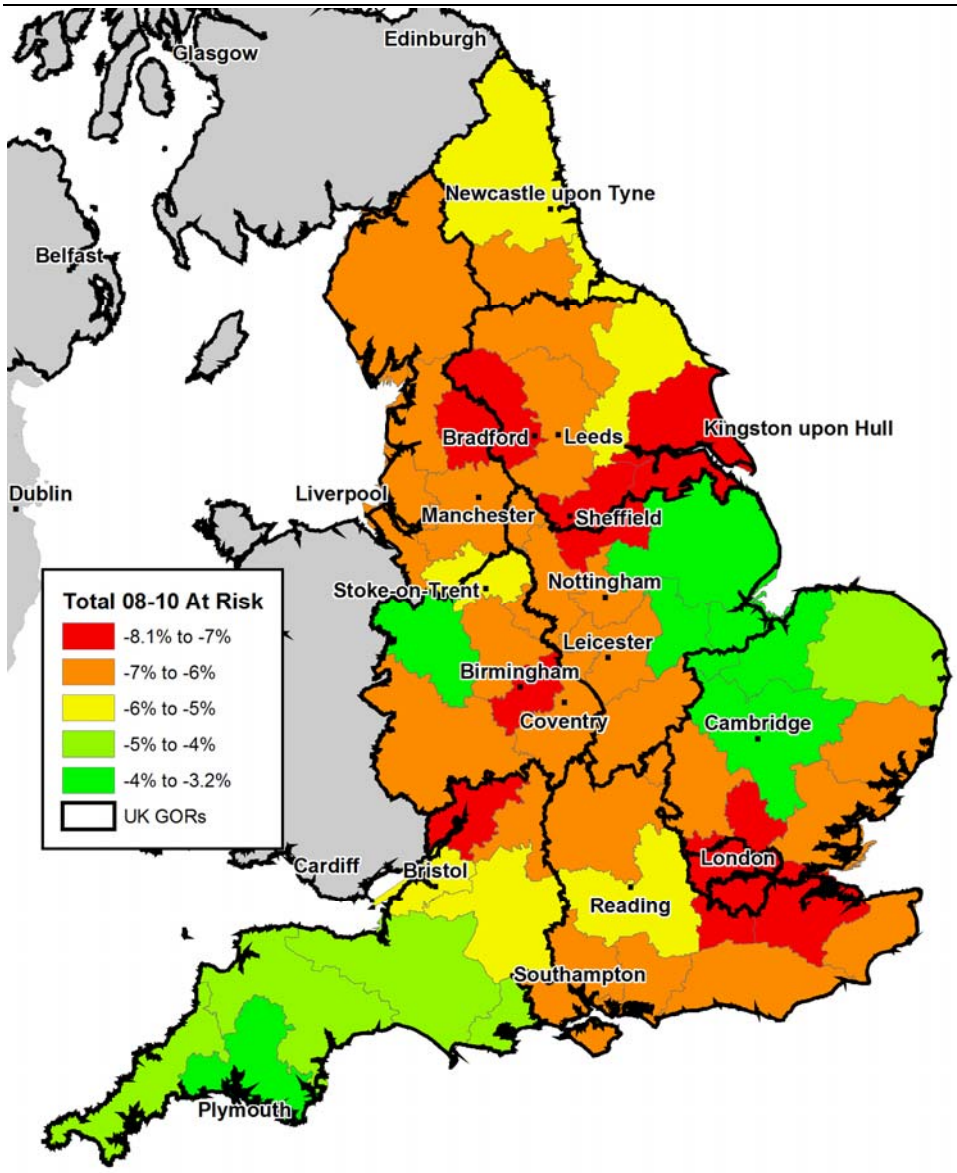
Figure 5.2 Overall At Risk Index for 2008-2010



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

5.2.4 Figure 5.3 below overlays the boundaries of England's GORs onto our map of employment estimates. With the exception of London (a functional economic area which, due to its extreme concentration of employment and attractiveness as a commuting destination, has boundaries extending beyond its "parent" GOR), it is clear that there are widely varying levels of projected employment change within each GOR. Indeed, 4 of the 9 GORs contain areas in both the "most at risk" and "least at risk" categories. This strongly suggests that national and regional policy interventions alone will not be sufficient to mitigate the effects of an economic slowdown.

Figure 5.3 Overall At Risk Index for 2008-2010 with Government Office boundaries



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

6 Conclusions and Recommendations

6.1 Conclusions

6.1.1 Our research shows that the national pattern of economic slowdown is not uniformly spread across the country, nor evenly throughout any particular GOR (with the exception of London, at least at the level of functional economic areas).

6.1.2 We have also demonstrated that there is no clear link that allows the local effect of a slowdown to be fully derived from a sectoral analysis, or indeed any other explanatory variable (other than recent whole-market performance in the same location). In previous recessions, this has been shown to be the case.

6.1.3 National and regional policies cannot, therefore, target fully the areas which are most likely to be affected by the slowdown. Decisions about economic interventions need to be taken at the level of the functional economic area.

6.1.4 In time of recession, the need for the devolution of economic decision-making to sub-regions/functional economic areas becomes more obvious, and more urgent.

6.2 Recommendations

6.2.1 We suggest that the appropriate policy response to a forthcoming national economic slowdown must include economic interventions made at the level of individual counties, functional economic areas, local governmental partnerships, and local authorities. Our own research, and discussions with local agencies, suggest that appropriate local policies may fall into the following categories:

a **Business development and support.** The primary conduit for financial support is likely to be at regional level, with the Regional Development Agencies chiefly responsible for new loans and other funding streams. However, business advice can be delivered locally and tailored to at-risk sectors and industrial groups where jobs growth is possible. The experience of local delivery agencies will be crucial here.

b **Training and skills.** Ensuring that training available to the local workforce matches the demands made by local industry should be a priority, no matter what the economic conditions are. While interventions here can have a long response time, they can be critical for softening the blow of a recession and ensuring a rapid recovery.

c **Infrastructure investment.** Targeted investment in infrastructure can stimulate the local economy (in the short term for construction and engineering, as well as in the longer term) and ensure that high-priority employment locations are better placed to recover. There is also an opportunity to close gaps between any growth in housing which may have occurred during a period of economic growth, and the infrastructure necessary to support the extra dwellings.

d **Housing, planning, land allocation policy**. A weakened housing market can lead to a disparity between the requirements of developers and local homebuyers. Strategic investments in infrastructure can reduce the barriers to entry for developers while ensuring that they are able to provide the

necessary levels of affordable housing and facilities within their developments.

e **Support for innovation.** Investment in genuinely innovative development in tradable sectors is of maximal benefit to local, regional and national economies because of the minimal risk of displacement (if something is new, the amount of local competition is small).

6.2.2 Councils should work together in partnership at the level of functional economic areas to lead public sector responses to the slowdown in the areas of support to firms, especially locally – based SMEs, skills, retraining, housing market support, infrastructure, and help for individuals and families affected by unemployment.

6.2.3 The Sub-National Review should be implemented quickly. There should be no retreat by Ministers from the proposed integration of strategies and the devolution of funding and decisions to sub-regions.

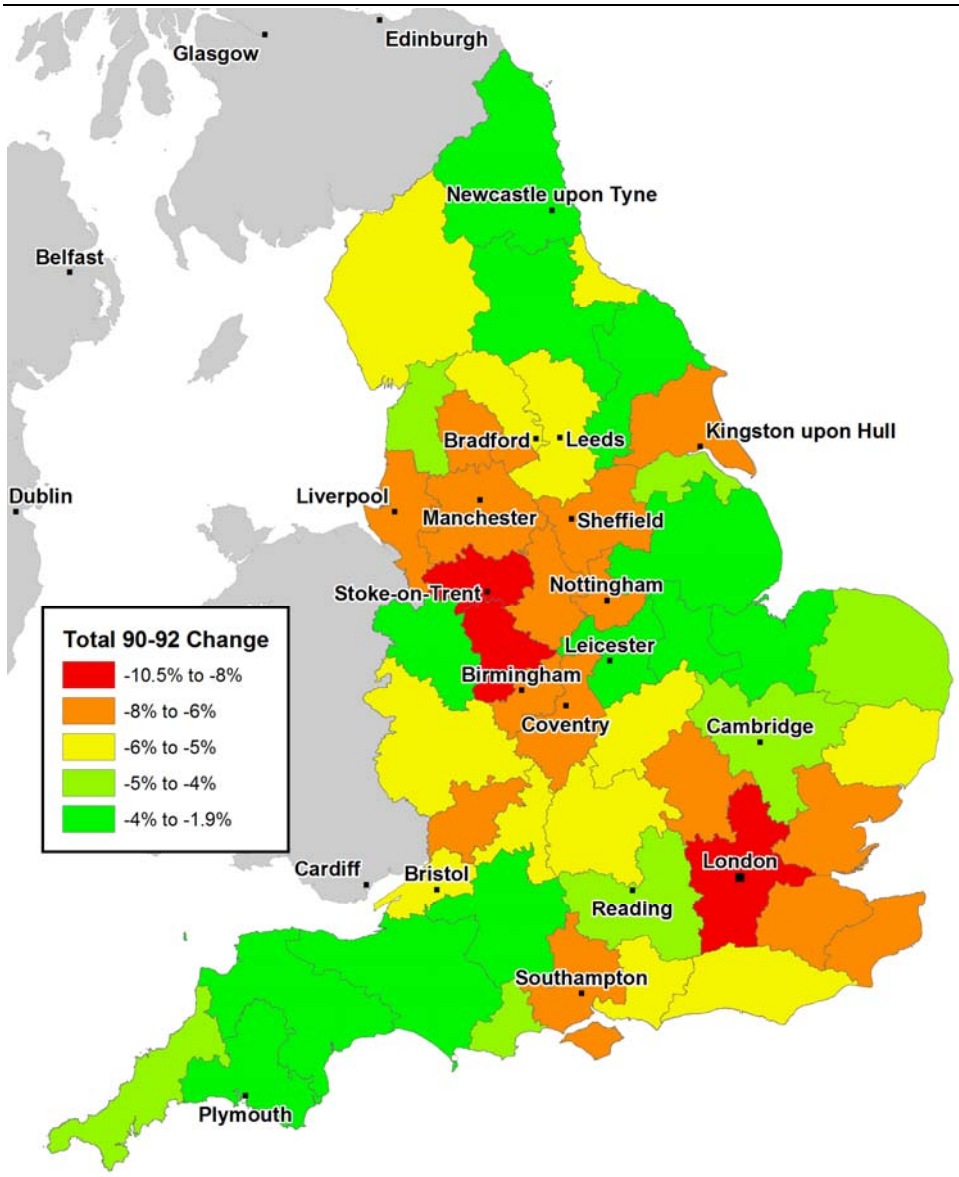
6.2.4 We suggest that further research is undertaken to attempt to understand the local factors which affect economic performance during times of recession. There is a need for in-depth case study work in order to clarify these local influences and to seek guidance on the appropriate local policy responses.

Appendix A 1990-1992 Analysis

This appendix gives the overall performance of the functional economic areas in the 1990-1992 recession, followed by three of its four component parts[7]:

- Structural component
- Recent component
- Local component

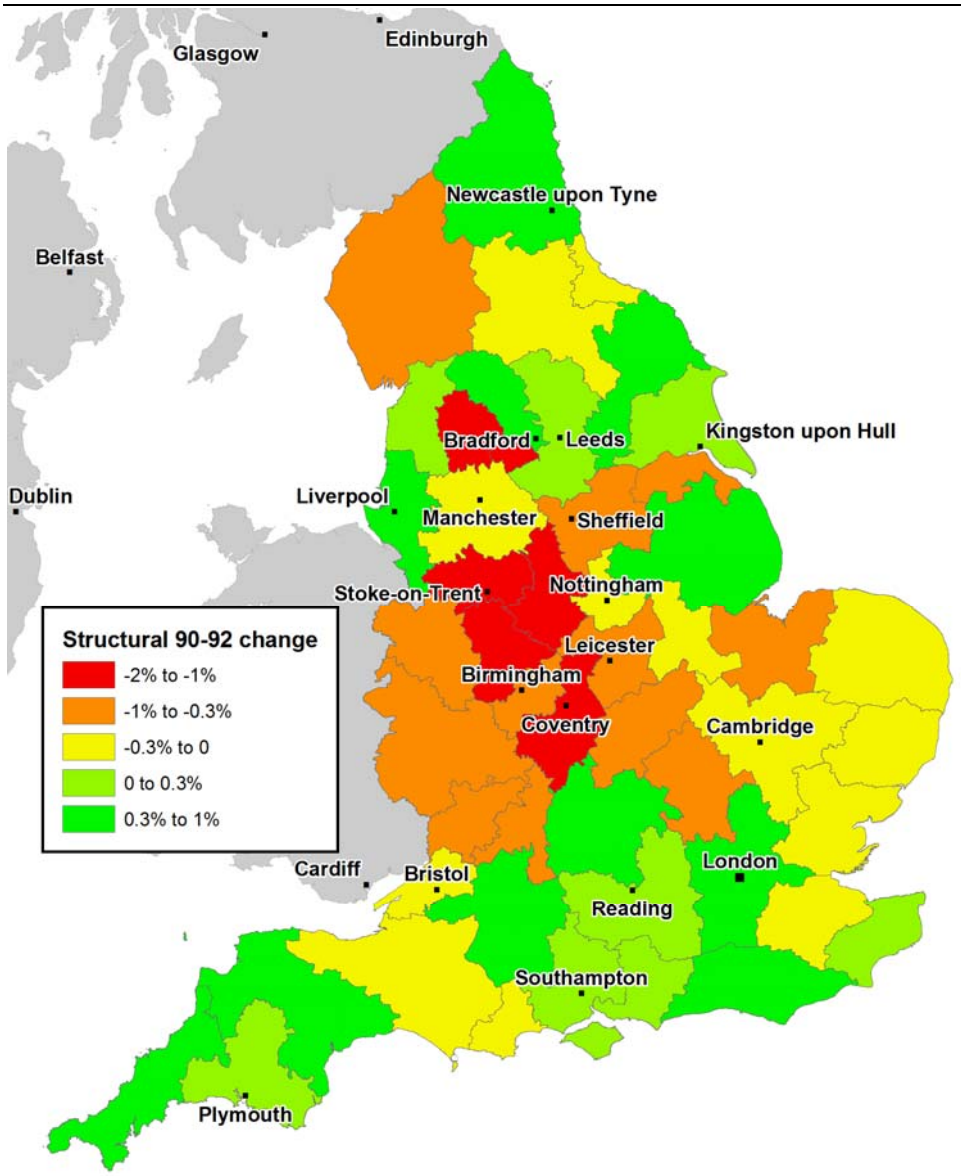
Figure A1.1 Overall performance in 1990-1992



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

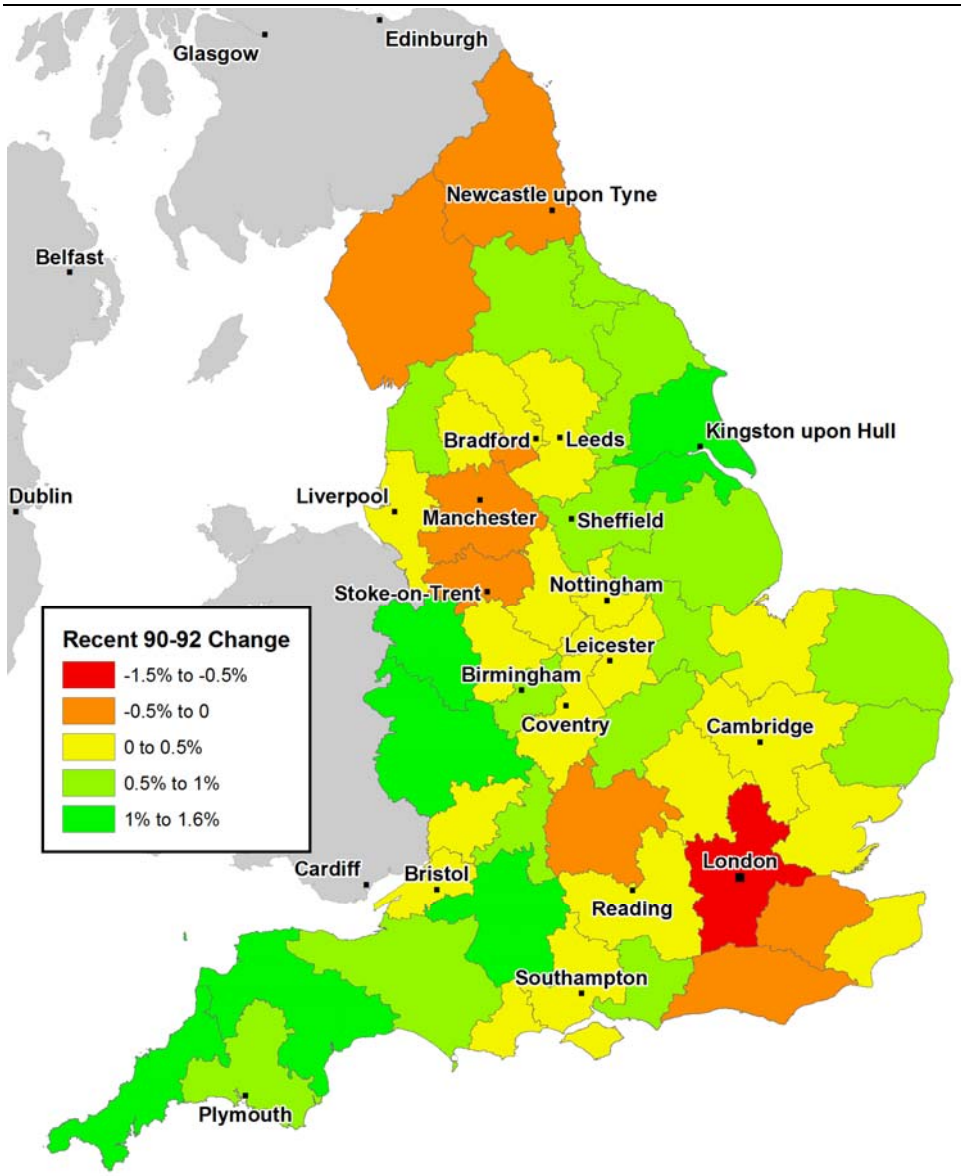
[7] The National component is uniform across the country

Figure A1.2 Structural component of performance in 1990-1992



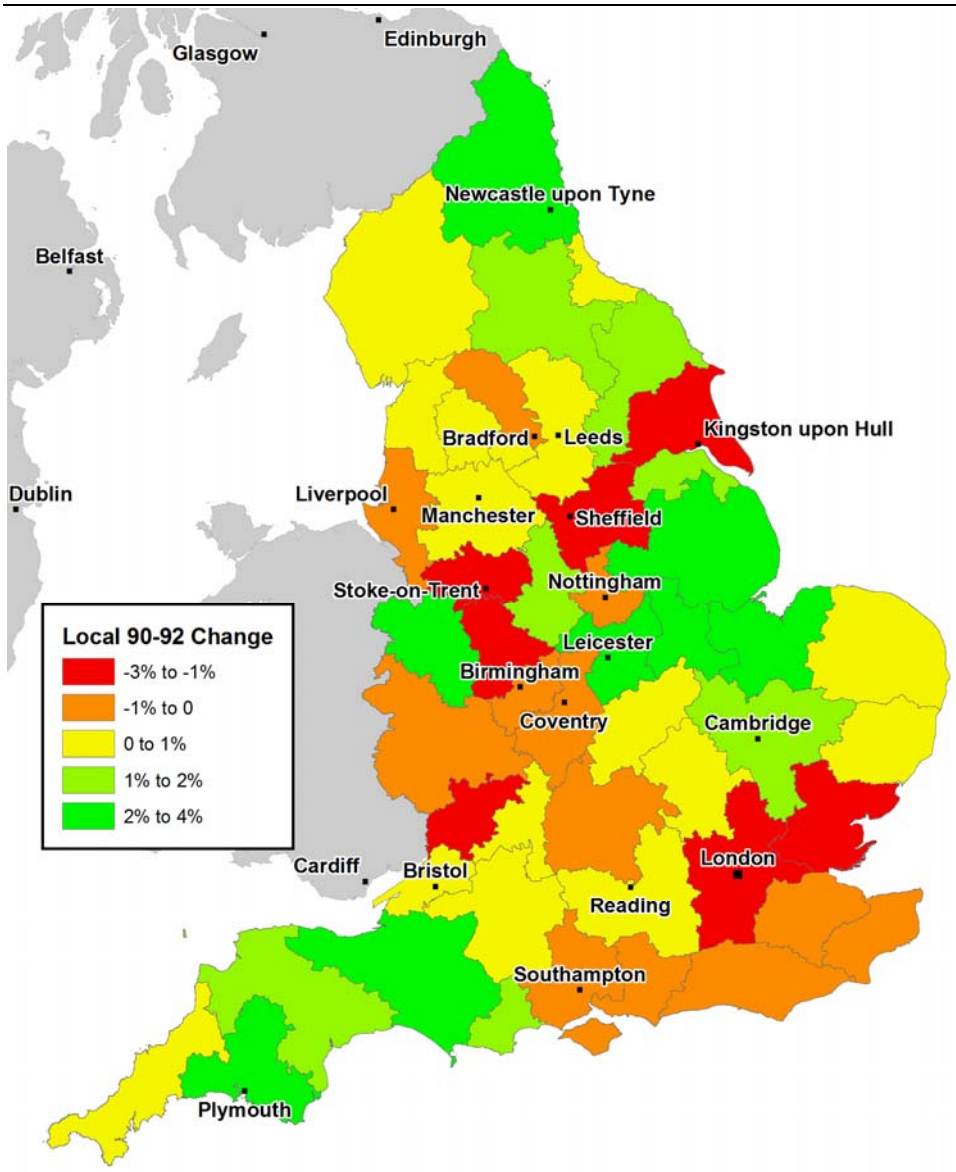
Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

Figure A1.3 Recent component of performance in 1990-1992



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

Figure A1.4 Local component of performance in 1990-1992



Source: Annual Business Inquiry, Annual Population Survey, ONS with PACEC analysis

For further information, please contact
the Local Government Association at:
Local Government House
Smith Square, London SW1P 3HZ

or telephone LG connect, for all your
LGA queries on 020 7664 3131
Fax 020 7664 3030
Email info@lga.gov.uk
Web www.lga.gov.uk

For a copy in Braille, in larger print or audio
tape contact LG connect

LGA code F/659
ISBN 978 1 84049 667 3

Published by the LGA
Printed by Newman Thomson, One Jubilee Road, Victoria Industrial Estate, Burgess Hill, West Sussex. RH15 9TL