Regional REVIEW

Following an initial consultation document last summer, the Department of Trade and Industry has decided to produce regularly a review of regional competitiveness. These reviews are planned to be twice yearly, and the second was produced in July. These documents comprise a set of Regional Competitiveness Indicators (RCIs). The department defines regional competitiveness as the ability of regions to generate high income and employment levels while remaining exposed to domestic and international competition. Regional Competitiveness Indicators have evolved from the Business Competitiveness Indicators (BCIs) which were developed in 1995. The five BCIs are Gross Domestic Product per head, average earnings, employment levels, business formation and survival rates. These measures have been extended to provide a wider picture of regional competitiveness. Some of the indicators presented are primarily measures of the outcome of the competitiveness process. Such figures include regional gross domestic product (GDP) and household income per head, the regional labour force participation and unemployment rates. Other indicators, such as labour productivity, the extent of education attainment, R and D intensity and the rate of new firm formation, are reported as sources of differential competitiveness. Finally some indicators, such as average earnings and property rentals, have a rather ambivalent status. In so far as they contribute to regional costs they reduce competitiveness. However, given that they are part of regional incomes, they imply that the region can sustain high incomes and therefore is competitive.

Figure 1 reports the regional GDP per head. The information is given in index form, with the UK average set at 100. The GDP figures are calculated on a workplace basis. This means that the gross domestic product is here the sum of the incomes of individuals earned from productive services, allocated to the location of their place of work. However, the population base for the per capita figure is taken to be the resident population. This has the effect of boosting the figure for cities where there is extensive inward commuting, because the incomes of the commuters is included in the GDP figures but these same commuters are not part of the resident population. London dominates on this measure. GDP per head is almost 40% higher in London than the UK average. There are only two other regions, the South East and Scotland, with above average GDP per head and these have values (103.9 and 100.2) only slightly above 100. What is clear is that the extensive commuting primarily into London from the South East and Eastern regions significantly boosts the London figure. Note also the very low figures in Merseyside, Northern Ireland, Wales and the North East which all have GDP per head values which are significantly below the UK average.

Figure 2 shows the total household disposable income per head across regions. These results differ from those in Figure 1 on two counts. First, there is an adjustment for tax, National Insurance and transfer payments, such as social security benefit. Second, earned income is allocated to where the recipient lives rather than where he or she works. These adjustments narrow the regional differentials. London still has the highest value but the South East and East have regional values above the UK average. The narrower regional differentials in terms of income per head also come through for lower income regions. The North East, Northern Ireland and Wales are those regions with the lowest household income levels, but now at just over 10% below UK average values. In terms of this income measure, Scotland is fractionally below the UK average.

The most likely source of income variations between regions is the average wage rate. Figure 3 presents average hourly earnings for full-time employees across regions. Again, note the very clear dominance of London where the wage is 35% higher than in the rest of the UK. Whilst in general there is a positive relationship between measures of tightness of the regional labour market and the wage, this is not the case for London. This is illustrated in Figure 4, which gives the percentage of persons of working age in employment. Although London is the largest individual regional labour market in the UK, it has a participation rate well below the UK average, although the participation rate is high in the adjoining Eastern and South East regions. Participation is also low in Merseyside, Northern Ireland and Wales. A similar picture is apparent if one looks at the regional variation in the unemployment rate (Figure 5). High values are registered in Merseyside (where the unemployment rate rose between 1996 and 1997) the North East, Northern Ireland and London. However, again the unemployment rate is lowest in the South East, with the figure for the Eastern region way below the national average.

Industrial property cost across all regions is given in Figure 6. This shows London, the South East and the Eastern regions to be the only regions above the UK average. A similar situation applies
for office rents. However, although a form of cost disadvantage to the commercial firm, such high rentals are a source of local income and should be taken as an indication of competitiveness.

But as the Department of Industry note, high wages and rentals must be matched by high productivity if competitiveness is not to be adversely affected. Figures for labour productivity in manufacturing, as measured by gross value added per head, are given in Figure 7. This chart indicates a much more even distribution across regions, with many more regions - including London, South East, Wales, Scotland, North East, North West and Merseyside, and the Eastern region - above the UK average. However, it is important to stress two points here. First, manufacturing only accounts for around one fifth of the output of the UK economy and comparable data for productivity in service sectors are not yet available (although a service sector productivity series is planned to begin in the third quarter of 1999). Second, gross value added per employee is a limited measure of productive efficiency. This is because value-added per employee is determined both by the efficiency and the capital-intensiveness of production. High labour productivity might therefore simply reflect high capital intensity which itself is likely to be influenced by the industrial, size and ownership structure of manufacturing in the region.

Other indicators of the potential sources of competitiveness are of interest. The available data on educational differences fail to identify any major variation across regions. However, Figure 8 shows the rate of new firm formation as a percentage of the stock of existing businesses. This again indicates that London is in premier position with a value one third higher than the UK average, whilst Scotland is 9% below the national figure. The rate of new firm formation is a BCI, as is the business survival rate. However, the rate of survival is relatively stable across regions. It is high in Northern Ireland, partly due to the interventionist industrial policy in the province which nurtures existing plants, and low in Merseyside. Figure 9 gives an indication of the R and D intensity of manufacturing. Whilst London does not perform particularly well on this criteria, the South East and the Eastern regions do. On the other hand, the low levels for Wales, Northern Ireland, Yorkshire and Humberside and Scotland are very marked. All these regions have a value less than 50% of the UK average.

It is clear that firms are able to sustain high wages and property rentals in the regions of East and South East England and particularly in London. The source of this ability is unclear from the figures given by the Department of Trade and Industry. It seems likely to rest in service industries and be related, at least partly, to the industrial and skill distribution in those regions. For example, it is clear that some of the key measures of more dynamic aspects of competitiveness - the rate of new firm formation and R and D intensity - are strongly present in the South East. However, what is equally clear is that regional competitiveness does not necessarily solve the problems of regional unemployment. In terms of GDP per head, London is measured to be the most competitive region but also has one of the highest unemployment rates, together with high scores in other measures of regional disadvantage, such as a relatively low participation rate and high proportion of the population claiming income support.
Figure 1

Gross Domestic Product Per Head
Workplace Based. Index (UK=100)

Figure 2

Total Household Disposable Income Per Head
Index (UK =100)
Quarterly Economic Commentary

Figure 3

Gross average hourly earnings for full-time employees
All industries and services

Source: New Earnings Survey, ONS

Figure 4

Percentage of Persons of Working Age in Employment
Residence Based

Source: Labour Force Survey, ONS
Figure 5

**ILO Unemployment Rate**

Winter

![Bar chart showing ILO Unemployment Rate by region/country from 1995 to 1997.](chart)

Source: Labour Force Survey, ONS

Figure 6

**Industrial Property Costs**

Capital Value Index of Property

![Bar chart showing Industrial Property Costs by region/country from 1996 to 1998.](chart)

Source: Property Market Report, Valuation Office

Volume 23, No.4, 1998
Figure 7

Manufacturing Labour Productivity
Gross Value Added per head

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Source: Annual Census Of Production, ONS

Figure 8

VAT Registrations, all industries & services
as a percentage of stock of businesses

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Source: SMEP, DTI
Figure 9

Business Enterprise R&D for Manufactured Products
as a percentage of Gross Value Added

Source: Business Enterprise Research and Development, Annual Census Of Production, ONS