

DERBYSHIRE COUNTY COUNCIL

CABINET

7 July 2015

REPORT OF THE CHIEF EXECUTIVE

**DERBYSHIRE ECONOMIC REVIEW – JUNE 2015
(Strategic Policy, Economic Development and Budget)**

1. Purpose of the Report

To present the latest Quarterly Economic Review – June 2015 to Cabinet.

2. Information and Analysis

Background

The Derbyshire Economic Review is a quarterly economic update produced by the Council. The update, which is attached at Appendix A for consideration, provides an overview of the current economic conditions in Derbyshire and summarises key economic trends to support broader discussions and policy developments across the Authority. The Review also supports and facilitates the delivery of partnership activity, most notably through the Derbyshire Economic Partnership, the Local Transport Board and the D2N2 (Derby, Derbyshire, Nottingham and Nottinghamshire) Local Enterprise Partnership (LEP). The Economic Review is available electronically on the Derbyshire Observatory at the following link <http://observatory.derbyshire.gov.uk/IAS/lea/>

Summary of Key Findings

The key findings for the latest quarterly review are outlined below:

- The county's economy has shown solid improvement during the first quarter of 2015, building on the previous quarter. This is despite the dip in GDP growth seen nationally, and means that the gap between Derbyshire and the East Midlands has virtually closed. A rise in UK orders has been a key factor in local growth this quarter. More firms also expect to be recruiting staff over the next three months and there is greater interest in investing in machinery. This is positive given current concern about UK productivity levels. This progress is, however, tempered by reduced growth in export orders, also felt regionally. Despite this, the county's businesses are optimistic about future turnover and in particular profitability.
- The downward trend in unemployment has continued with the overall claimant

count¹ unemployment rate in Derbyshire being at 1.4%, its lowest since the time series began in 1992, and below the England rate of 1.8%. However, areas with relatively high rates still remain in parts of Ilkeston, Chesterfield, Buxton and Gamesley.

- Levels of long-term unemployment have been falling steadily for nearly a year, although there has been a marginal rise over the past couple of months. However, nearly 1,675 unemployed people in the county have been out of work for more than a year which remains concerning.
- Although youth unemployment levels in Derbyshire have been on a general downward trend since the early part of 2012, over the past few months a slight gap has once again opened up, with the local rate (2.4%) higher than that nationally (2.1%). In addition, youth unemployment is more than double the national average in 22 of the county's 177 wards, an increase on the 19 in the previous quarter. These include parts of Ilkeston, Chesterfield, Creswell, Buxton and Holmewood.
- There are 3,250 fewer Derbyshire residents claiming an Out of Work Benefit (OoWB) than a year ago, reflecting the improving economic climate. However, in Gamesley in High Peak, Rother, Middlecroft and Poolsbrook, and Loundsley Green in Chesterfield, Shirebrook North West in Bolsover, and Ilkeston North in Erewash, more than 20% of 16-64 year olds are currently claiming an OoWB.
- There is once again some positive news on jobs to report in Derbyshire. For the period February to April 2015 there have been more jobs created than lost. For example, Great Bear Distribution plans to create 400 jobs when it moves onto the Council's Markham Vale site in 2016; Somercotes firm George Utz is to expand its manufacturing plant which will create 40 jobs over the next five years, and the Co-op is to open a new store in Chesterfield, which will create 10 jobs during the construction phase and 20 posts once completed. However, at the end of February Sainsbury's announced the closure of a store in Long Eaton with the loss of around 15 jobs.
- The county's level of employment remains higher than the England rate, however there has been a slight dip this quarter following three years of steady increase. This may be partly explained by a dip in the self-employment rate, the level in Derbyshire being 1.8% points below that nationally. However, there has also been a marginal fall in the level of International Labour Organisation (ILO)² unemployment over the past three months. This is somewhat surprising with the employment rate having fallen, and indicates some individuals may have left the labour market. This may, for example, be due to retirement or because people have decided to stop looking for work and therefore don't appear in the ILO unemployment statistics. The issue of hidden unemployment

¹ Claimant count unemployment is derived from administrative data generated by the system of benefits paid to people who are out of work. It is a different definition and measure of unemployment than the ILO unemployment noted below.

² International Labour Organisation (ILO) unemployment has a much wider definition than the monthly claimant count of unemployment and includes people who are out of work and claiming Job Seekers Allowance (JSA) as well as those who are actively looking for work but not necessarily claiming unemployment related benefits. It can therefore produce different levels and patterns of unemployment to the claimant count.

is one that will be covered in a future quarterly economic review.

- In March 2015, the average house price in the county was £128,276, £50k lower than the £178,007 for England and Wales. However, house prices are on a steady upwards path and the latest figures have seen the gap narrow slightly. Despite this, house prices in Derbyshire are 8.6% below their pre-recession level, meaning that affordability may be an issue for potential house sellers. The UK House Price to Earnings ratio published by the Nationwide puts this into context and shows that although the current ratio (just under 5.5) of earnings to house prices is lower than the pre-recession peak (nearly 6.5), it is much higher than the figure of around 3.5 in the mid 1980's.

'In focus' topic – the 'Productivity Puzzle'

Although the UK economy has recovered relatively well since early 2013 with one of the strongest growth rates in the G7 countries, productivity levels in terms of output per hour have stagnated. This has stimulated much debate, and the Organisation for Economic Co-operation and Development (OECD) has highlighted the issue as a concern, with UK output per hour 17% points below that for the G7 economies in 2013. One of the key theories for the 'productivity puzzle' is thought to be that UK firms had a greater tendency to maintain their workforce levels during the difficult economic conditions compared to other G7 nations. This resulted in firms producing more, but being less productive in doing so, through operating at lower capacity. In other G7 economies, businesses were likely to release employees but invest in turning assets and workforce skills into more productive output. A further issue is thought to be the low interest rate environment in the UK, which the Bank of England feels may have had the unwarranted consequence of keeping struggling companies in business at the expense of more productive start-ups.

It is recognised that output per hour is also an issue for Derbyshire, with the latest figures showing it to be 84.6% of that nationally. Derbyshire's productivity shortfall is partly a function of its distinctive industrial profile, however, it is important that productivity is improved to secure future living standards. The need to raise productivity features strongly in the Derbyshire Economic Strategy Statement (DESS). For example, the DESS identifies the need to capitalise on the input of higher education institutes in supporting research and innovation; offer high quality, co-ordinated business support/mentoring to enhance competitiveness; embed entrepreneurship within education, and encourage traditional manufacturing to move towards higher value sectors. Whilst productivity improvement is an important element of the DESS, it is likely that productivity is an issue that partners will want to consider through the work linked to the proposed Combined Authority.

3. Equality and Diversity Considerations

Levels of unemployment have reached their lowest levels for many years in the county. However, there remain issues in some parts of Derbyshire. For example the increase in the number of wards where the rate of youth unemployment is more

than double the national average has increased this quarter. Derbyshire County Council recognises the importance of helping young people to be able to access the labour market. A draft Employment Strategy for Young People is being developed, which will set out five key priorities to guide the work of the Council and partners. This will include influencing the employment and skills system to ensure it is more responsive to the needs of young people and employers by aligning investment and intervention more effectively. The June 2015 Review also outlines work that is to take place to improve productivity levels in the county, which can potentially have a positive impact on living standards locally.

4. Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, human resources, environmental, health, property and transport considerations.

5. Key Decision

No

6. Call-in

Is it required that call-in be waived in respect of the decisions proposed in this report? No.

7. Background Papers

Files and supporting papers are held in the Policy and Research Division, Chief Executive's Office.

8. Officer's Recommendation

That Cabinet note the information presented within the Derbyshire Economic Review – June 2015 and that the findings be used to support future service planning and policy development.

Ian Stephenson
Chief Executive

Policy and Research, Chief Executive's

Derbyshire Economic Review - June 2015

Introduction

This document gives a brief overview of the latest statistics and news on the Derbyshire¹ economy both in a national and local context. The report provides a “snapshot” of the Derbyshire economy, to help inform the development and delivery of future economic strategies in the area. It is primarily based on evidence available from the Derbyshire Observatory, which is a single information source for partners and organisations across the county. The update also provides information on an ‘In focus’ topic, in this edition: The ‘Productivity Puzzle’.

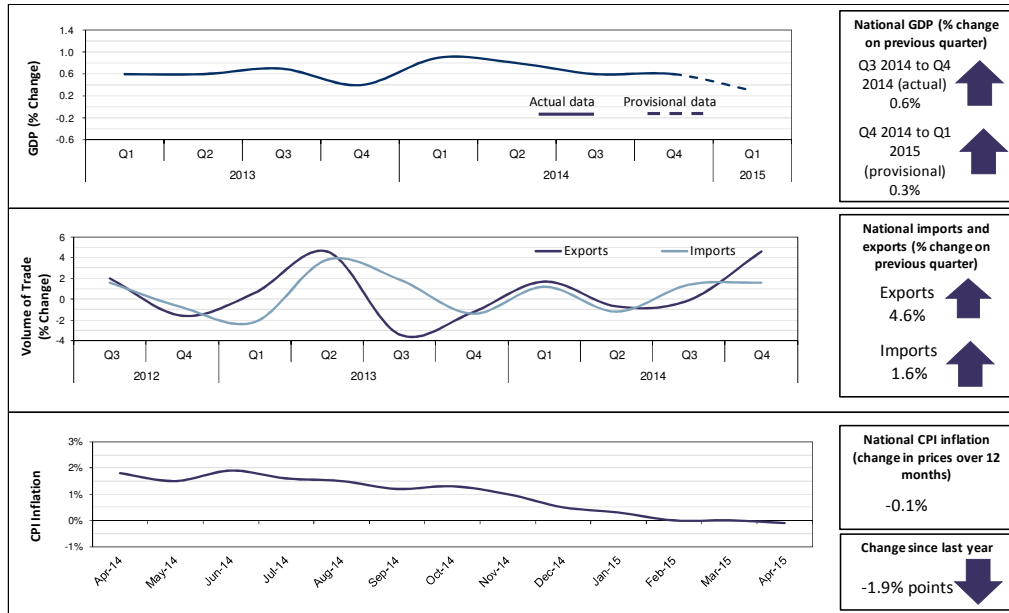
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Overview

- Economic growth provisionally increased by 0.3% in the first quarter of 2015. This is lower than the 0.6% increase the previous quarter and is the weakest level of growth since the final quarter of 2012. The uncertainty ahead of the recent General Election and stagnation in the Eurozone are thought to be factors in this. However the slowing in growth is thought to be temporary, with wages beginning to show real growth in the UK and the injection of funds by the European Central Bank likely to have a positive impact on the Eurozone economy.
- The Consumer Prices Index (CPI) inflation rate monitors changes in the price of goods and services purchased by households. The CPI rate is -0.1% for the 12 months to April 2015, the first time that inflation has turned negative since 1960.
- The county's economic performance showed solid improvement in the first quarter of 2015, according to the Derbyshire, Nottinghamshire and Leicestershire Chamber of Commerce's State of the Economy Index. This has built on the progress in the previous quarter and seen the gap between Derbyshire and the East Midlands narrow.
- Although there has been a slight dip in the employment rate this quarter, the county rate was at 75.6% in December 2014, higher than the 72.5% for England.
- The overall claimant count unemployment rate of 1.4% in Derbyshire is at its lowest since the current series began in 1992, and below the 1.8% for England. However, hotspots still exist across the county where unemployment levels are relatively high e.g. Ilkeston North (4.6%), Cotmanhay (3.9%), and Ilkeston Central (3.5%) in Erewash; Rother (3.9%), Micklecroft and Poolsbrook and St Helen's (both 3.5%) in Chesterfield, and Barms (3.8%) and Gamesley (3.5%) in High Peak.
- 24.6% of all unemployment claimants in Derbyshire have been out of work for more than a year, slightly less than the national average (27.6%).
- The youth unemployment rate in the county stands at 2.4%, slightly higher than the England rate of 2.1%. The problem is particularly acute in 22 out of 177 wards, where youth unemployment is more than double the national rate.
- In March 2015, annual house price growth in Derbyshire was 3.7%, below the 5.3% for England and Wales, although the gap in prices has narrowed.

National Performance Indicators



According to provisional data, national Gross Domestic Product (GDP), an indicator of economic growth, is estimated to have increased by 0.3% between quarter 4 of 2014 and quarter 1 of 2015³. Of the four main industrial sectors output only rose in services (0.5%), although this was down on the figure of 0.9% the previous quarter, mainly due to reduced growth in business services and finance. The other 3 main industrial groupings within the economy decreased, with construction falling by 1.6%, production by 0.1% and agriculture by 0.2%. The largest contribution to GDP growth came from the services, still the only sector where output has exceeded its pre-downturn peak, accounting for 0.41% points of the increase. There was a downward contribution from construction of -0.1% points and also production (-0.01%) whilst agriculture made a net zero contribution.

The UK's trade balance deficit narrowed from -£13.2 billion in quarter 3 of 2014 to -£9.6 billion in quarter 4 of 2014⁴. Exports increased by 4.6% in quarter 4, following a decrease of -0.1% in quarter 3 of 2014, while imports rose by 1.6%. This means

that the UK trade balance made a positive contribution to GDP growth for the first time since quarter 2 2013. The increase in exports was driven by goods exports, particularly materials manufacturing, as opposed to those of services.

The annual CPI inflation rate currently stands at -0.1% for the 12 months to April 2015. The figures show that transport costs were nearly 0.5% lower than a year ago, while food was 0.3% cheaper. Although negative inflation means that the cost of living is falling, it can potentially be dangerous with people waiting for prices to fall further. However, the Bank of England think that although inflation is expected to remain low over the next few months, it should start to pick up towards the end of the year.

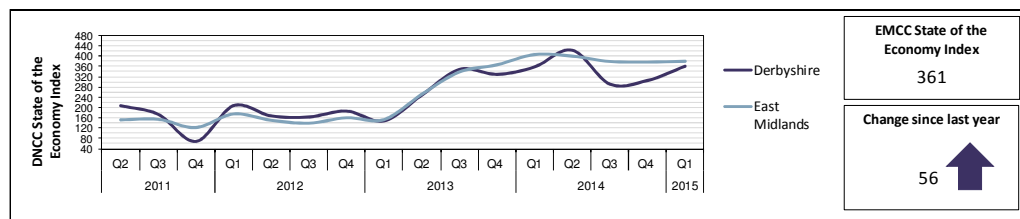
The Bank of England interest rate remains at 0.5%⁵. Whereas economists had been expecting interest rates to rise at some stage during 2015, it is now thought that this is unlikely and it is widely thought that interest rates are unlikely to rise before 2016. This is because inflation has fallen sharply since the middle of 2014, spare resources are still thought to exist within the UK labour market, and GDP growth has stalled slightly in the first quarter of 2015. The Bank of England has said it wants to be sure growth is on a firmer footing before it raises interest rates and has highlighted the following national trends as at April 2015⁶:

- Retail sales growth has eased with growth in consumer services unchanged.
- Housing market transactions have continued to rise strongly.
- Business investment intentions have continued to strengthen.
- Business services turnover has increased.
- Manufacturing output has picked up further, both for domestic and export markets.
- Construction output has remained robust, led by house building.
- Corporate credit availability has continued to ease, though it remains tight for small companies.
- Employment intentions have increased, with some recruitment difficulties being experienced.

More information can be found at: <http://www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx>

Local Economic Context

Business Conditions



Businesses in Derbyshire have shown solid performance during quarter 1 of 2015, according to the East Midlands Chamber of Commerce's (EMCC) most recent Quarterly Economic Survey⁸. At the national level, GDP growth dipped in the first quarter of 2015 so the achievement of firms locally is encouraging. EMCC's State of the Economy Index for Derbyshire increased from 305 to 361 points, building on the increase reported in the previous Derbyshire Quarterly Economic Review, and narrowing the gap between Derbyshire and the East Midlands. A rise in UK orders has been a key factor in local growth in quarter 1 of 2015. More firms also expect to be recruiting staff over the next three months and there is greater interest in investing in machinery. This is positive given current concern about UK productivity levels (discussed in more detail in the In Focus section on page 13). This progress is, however, tempered by reduced growth in export orders, also felt regionally. Despite this, the county's businesses are optimistic about future turnover and, particularly profitability.

Investment

The Derbyshire Economic Partnership received a total of 20 enquiries from firms seriously looking to invest in the county⁸ between February and April 2015, up on the 6 enquiries received in the corresponding quarter a year ago and a positive sign, especially given that the General Election may have recently stalled investment.

In addition, 400 jobs are set to be created after Great Bear Distribution recently announced it was moving onto Derbyshire County Council's (DCC's) [Markham Vale](#) site in Spring 2016, the sixth major deal for the business park in the last year. Packaging/print firm Inspirepac has also confirmed that they intend to invest a further £6 million in the latest technology for their new Markham Vale manufacturing facility with the plan to employ around 110 to 125 people within five

Local Economic Context

years. Chesterfield based electric meter specialist Meter Provida have started construction of a site at Markham Vale which will safeguard 22 jobs and create a further 20 over three years. During the quarter, a total of 15 enquiries were received by the Markham Vale team, two of which have progressed to detailed discussions. The latest Annual Jobs Survey has just been completed highlighting, that as at March 2015, 732 full-time equivalent positions had been created since the start of Markham Vale, compared with the figure of 565 last year.

Job Losses and Gains

The following job losses and gains information relates to organisations in Derbyshire (including Derby City), and is drawn from articles in the local press between February and April 2015.

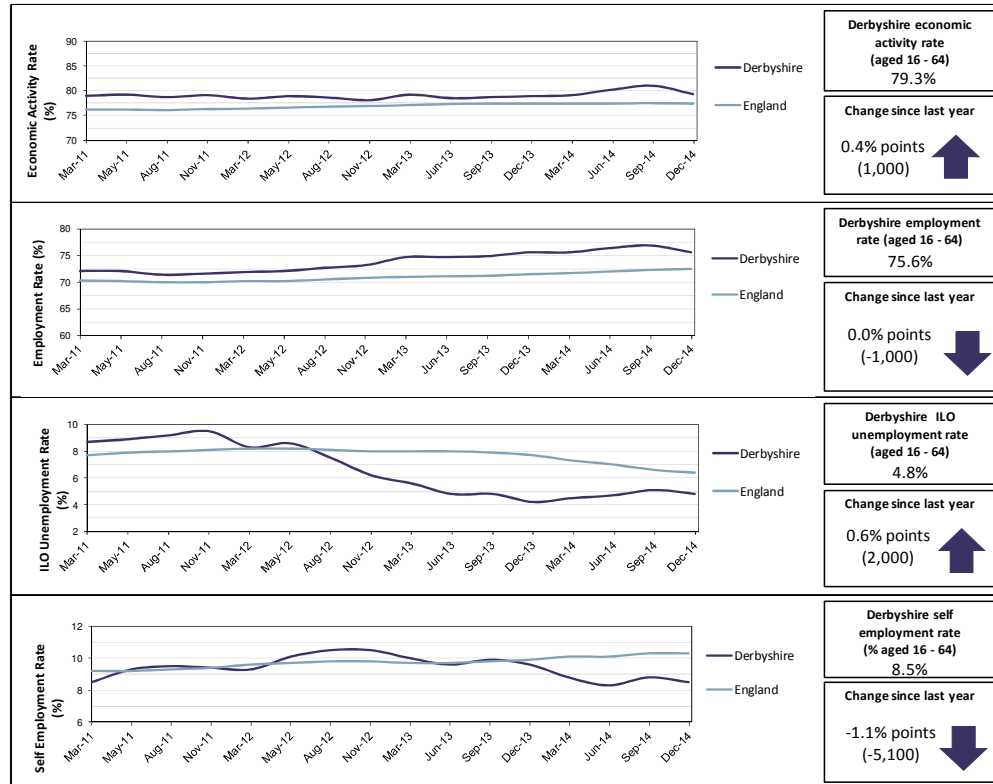
Job Losses

- At the end of February, Sainsbury's announced that it is to close one of its convenience stores in Long Eaton, with the loss of 14 jobs. The store will close at the end of June.

Job Gains

- 400 jobs are to be created after Great Bear Distribution announced it was moving onto the Council's Markham Vale site in Spring 2016.
- At the end of February Somercotes firm George Utz announced a £3.5 million extension to its manufacturing plant, leading to the recruitment of 40 more staff over the next five years.
- It was announced in April that the Spital pub in Chesterfield is to be converted into a Co-op food store. The construction phase will generate about 10 temporary jobs, with the final store requiring 20 new staff.
- Trade retailer Screwfix opened its new Alfreton store in February, with the creation of 14 new jobs.
- At the beginning of April, AW Repair Group opened a state-of-the-art vehicle bodyshop on the Markham Vale site, providing 14 new jobs.
- April saw the opening of a new Pets at Home store in Dronfield, creating 10 jobs.
- The opening of a Costa coffee house in Belper at the end of April is expected to provide 10 new jobs.

Labour Market Participation



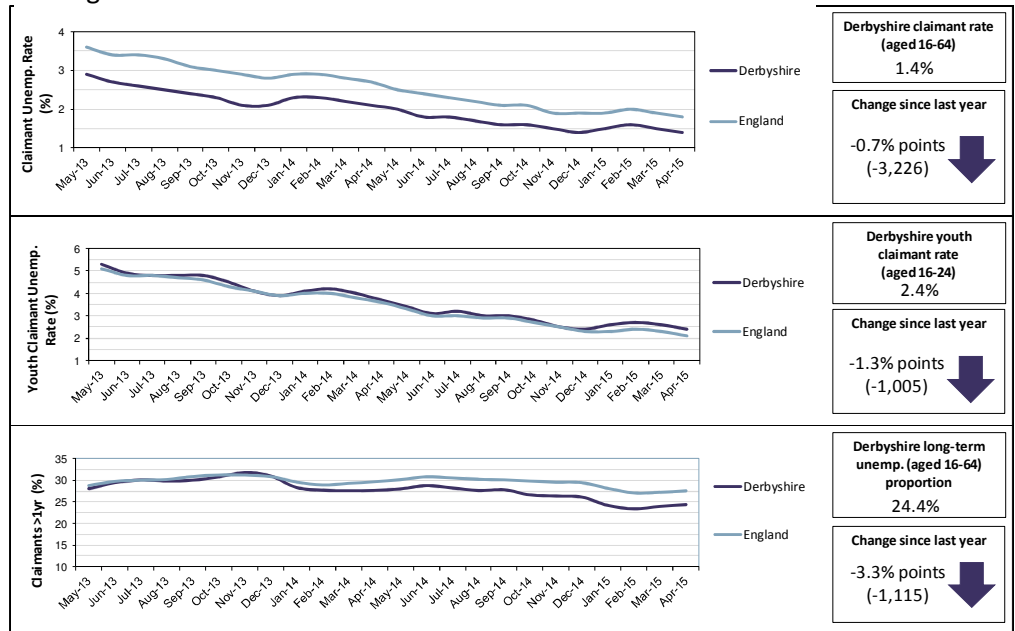
Source: Annual Population Survey, January -December 2014, ONS (Nomis) © Crown Copyright.

The economic activity rate in Derbyshire is currently 79.3%⁹, higher than the national rate of 77.4%, whilst the employment rate is 75.6%¹⁰, also remaining higher than the national average (72.2%). However, on both measures the last quarter has seen a slight drop locally, narrowing the gap with England.

International Labour Organisation (ILO)¹¹ unemployment is regarded as the official measure of unemployment. It has a much wider definition than the monthly claimant count of unemployment and includes people who are out of work and claiming Job Seekers Allowance (JSA) as well as those who are actively looking for work but not necessarily claiming unemployment related benefits. It can therefore produce different levels and patterns of unemployment to the claimant count.

The ILO unemployment rate in Derbyshire in December 2014 stood at 4.8%, 1.6% points lower than the England rate. This is a slight decline on the 5.1% for the county the previous quarter, and follows three consecutive quarters when the rate crept up.

Over the last year, self employment levels locally have continued to fall compared with a slight rise nationally, with the number of self employed people in Derbyshire decreasing by 5,100 (-1.1% points) to stand at 8.5%, lower than the level of 10.3% for England.



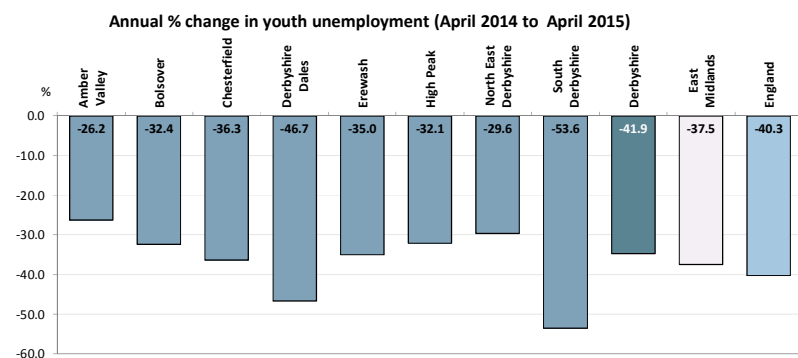
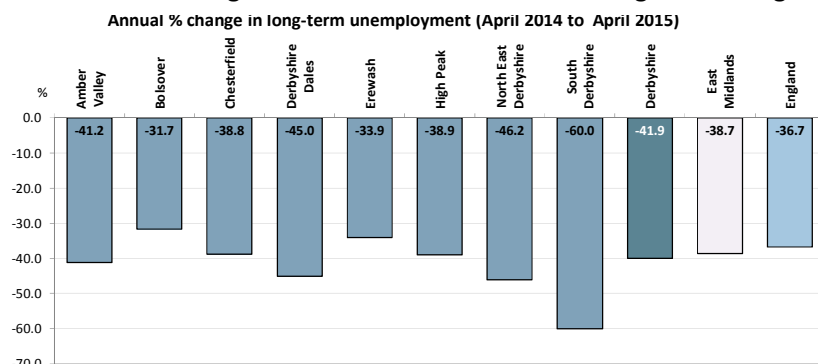
Source: Claimant Count, April 2015, ONS (Nomis) © Crown Copyright.

The claimant count unemployment rate in Derbyshire is currently 1.4%, lower than the England rate of 1.8%¹². Claimant count unemployment has been generally decreasing for the last three years, and the rate for both areas now stands at its lowest level since January 1992 when the current series began. Additionally the gap between England and Derbyshire has narrowed since early 2014. Hotspots exist across the county where levels are particularly high, including the wards of Ilkeston North, Cotmanhay and Ilkeston Central in Erewash, Rother, Middlecroft and Poolsbrook, and St Helen's in Chesterfield, and Barms and Gamesley in High Peak.

Labour Market

Just under a quarter (24.4%) of Derbyshire's unemployment claimants have been out of work for more than a year, a lower proportion than this time last year (27.7%), and less than the 27.6% for England. Since the end of 2013, after a period of rising long-term unemployment, there has been a slight downwards trend, although there has been a marginal rise over the last two months.

Analysis by district can highlight which areas are contributing most to the changes county-wide. All districts have shown a decrease in the number of people who have been unemployed for over a year in the last 12 months. The greatest annual percentage decline is once again shown by South Derbyshire (-60.0%) and the lowest by Bolsover (-31.7%). All districts except Bolsover and Erewash have shown rates of decrease similar to or larger than the East Midlands and England averages.



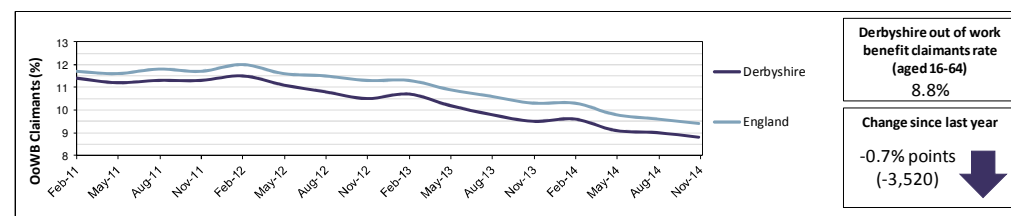
Source: Claimant Count, April 2015, ONS (Nomis) © Crown Copyright.

Derbyshire Observatory Link: <http://tinyurl.com/lea2012-unemp>

Labour Market

Youth unemployment levels across the county and England have generally declined since the early part of 2012, particularly in Derbyshire, so that the county's youth unemployment rate (2.4%) is now only marginally higher than the national average (2.1%)¹³. However, over the past few months the gap has opened up again slightly. All districts have shown a decline in youth unemployment over the past year, but the greatest annual percentage decline is, as for long-term unemployment, within South Derbyshire (-53.6%), with the smallest decline in Amber Valley (-26.2%).

The economic recovery is impacting positively on young people, with the county youth unemployment rate now down to 2.4%. In addition levels of long-term youth unemployment have also fallen, although this decline only began more recently. The long-term youth unemployment proportion for Derbyshire is now 12.2%, below the peak of 21.0% in November 2013. There remains, however, wide variation across the county, from 17.7% in Chesterfield compared to 3.8% in South Derbyshire. To support young people in the labour market, DCC is developing a Youth Employment Strategy which will detail the Council's commitment over the next five years to supporting young people's successful transition from education into employment.



Derbyshire Observatory Link: <http://tinyurl.com/lea2012-owwb>

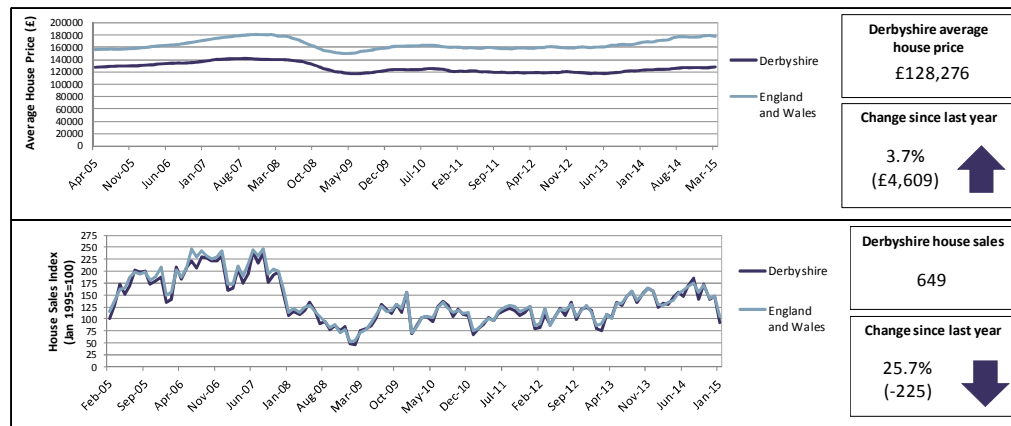
In November 2014 there were 3250 fewer Derbyshire residents (8.8%) claiming an Out of Work Benefit (OoWB)¹⁴ than the year before, reflecting the improving economic climate, and a lower percentage than the England average of 9.4%¹⁵. However across Derbyshire the number of claimants varies considerably, in particular there are six wards where more than 20.0% of 16-64 year olds are claiming an OoWB. These are Gamesley in High Peak; Rother, Middlecroft and Poolsbrook, and Loundsley Green in Chesterfield; Shirebrook North West in Bolsover, and Ilkeston North in Erewash.

The welfare system is currently in a state of reform leading to changes to a range of benefits. The table below provides data on the number of people claiming some of the key benefits available.

Indicator	Number	Rate		Annual change		Annual trend
		Derbyshire	England	Number	%	
Individual benefits (November 2014 but January 2015 for PIP)						
All Benefit Claimants	57,840	11.9	12.1	-3,100	-5.1	↓
Out of Work Benefit Claimants	42,690	8.8	9.4	-3,520	-7.6	↓
Employment Support Allowance (ESA)	27,200	5.6	5.5	2,050	8.2	↑
- Long term claimants (1yr or more)	19,750	72.6	68.6	6,460	48.6	↑
- 18 to 24 year old claimants	2,320	8.5	8.3	290	14.3	↑
Lone Parent Income Support (LPIS)	4,730	1.0	1.1	-160	-3.3	↓
- 18 to 24 year old claimants	1,480	31.3	28.2	-180	-10.8	↓
Personal Independence Payments (PIP)	5,405	1.1	0.8	No trend data		
Universal Credit	Not yet fully rolled out in Derbyshire					
Household benefits (February 2015)						
Housing Benefit claimants	50,034	15.0	18.9	-1,086	-2.1	↓
Households affected by removal of Spare Room Subsidy	5,197	10.4	7.1	27	0.5	↑
- 1 Bedroom	4,272	82.2	82.6	9	0.2	↑
- 2 or more bedrooms	925	17.8	17.1	18	2.0	↑
Benefit Cap	108	Numbers too small		-23	-17.6	↓

Source: Department for Work and Pensions (DWP)/ONS (Nomis) © Crown Copyright.

11.9% of residents are claiming benefits, including 5.6% ESA and 1.0% LPIS, similar to England. However, a higher proportion of LPIS claimants are aged 18 to 24 in Derbyshire (31.3%) than England (28.2%), and also a greater proportion are long-term ESA claimants (72.6% versus 68.6%). There are a lower proportion of households claiming housing benefit in the county (15.0%) than England (18.9%) but a higher proportion of claimants have been affected by removal of the spare room subsidy (10.4% compared with 7.1%)¹⁶. Personal Independence Payments are in the process of replacing Disability Living Allowance, so the rates are currently low as it is a new benefit. The majority of benefits in Derbyshire have seen a reduction in claimants, the exception being ESA which has seen an increase, in part reflecting the fact that ESA has had a phased introduction.



Source: House Price Index, Land Registry, March 2015, © Crown Copyright

In March 2015, the average house price in Derbyshire was £128,276¹⁷, significantly lower than the £178,007 across England and Wales. Although prices have been rising steadily since the middle part of 2013, national growth has slowed to 5.3%, whilst locally growth increased to 3.7%, resulting in a slight narrowing of the gap. However, house prices in Derbyshire are some 9.7% below their pre-financial crisis peak, presenting difficulties for some individuals locally.

The latest data shows that there remain divisions in house prices across the country. Although, annual house price growth has decreased in London, it still stands at 11.3%. This compares with a fall of -2.9% in the North East, with all regions except London and the South East showing a monthly decline in house prices. The strengthening of the economy and relatively subdued pace of activity in the housing market remains something of an anomaly and it is possible that uncertainty ahead of the General Election has weighed on activity. If the labour market remains healthy and mortgage rates remain low, these two factors are likely to increase housing demand, and most experts expect house prices to rise by 5-6% nationally this year.

There were a total of 695 property transactions in Derbyshire in January 2015, significantly lower (-25.7%) than the 874 a year earlier. A decline has also been seen nationally, albeit not as great (-18.4%). This reflects a marked slowdown in activity in recent months, with lenders and surveyors reporting falls in buyer numbers.

The 'Productivity Puzzle'

It is recognized that the UK economy has been recovering relatively well since early 2013, with strong economic growth and rising employment levels. However, productivity levels, or output per hour, have stagnated. This In-Focus explores what has been termed the 'productivity puzzle'.

GDP growth in the national economy was 2.6% in 2014, the strongest increase since 2007, having a marked impact on labour markets. The transition rate from unemployment to employment has recovered well, regaining much of the ground lost during the downturn with UK employment now at its highest since records began in 1971. Derbyshire has also seen strong employment growth, with the current level of 75.6% being one of the highest since the recession. An important factor at the UK level has been the rise in self-employment, which is now at its highest level in 40 years, although self-employment does not appear to have been quite as significant locally, particularly recently.

Although the Organisation for Economic Co-operation and Development (OECD) recognises that the UK enjoys one of the fastest growth rates among advanced economies, it has concerns about the weak labour output per hour. Unlike previous recessions, productivity hasn't picked up during the recovery, and still lies around 4% below its pre-crisis peak. Although the UK is not alone in experiencing a slowdown in productivity growth, ONS estimates that UK output per hour was 17% points below that for the G7 economies in 2013. It is also recognised that output per hour has tended to be an issue for Derbyshire, with the latest productivity figure being 84.6% of that nationally, at £25.40 compared with £30.10 per hour¹⁸.

Labour productivity in any economy is dependent on three main areas, the capital spend per employee, the composition or quality of the workforce and the ability of a firm to convert existing labour and capital into output. ONS suggests that the third area has been a key factor in the UK's recent 'productivity puzzle', with businesses not as effective at improving output from existing labour, machinery and premises.

How does this weakness in productivity square with the economic growth? It is thought that a key factor in UK GDP growth has been that firms had a greater tendency to maintain their workforce levels during the difficult economic conditions

compared to other G7 nations. This meant that although operating at lower capacity, firms were able to grow but in terms of output per hour were less productive in doing so. In other G7 economies, firms were more likely to release employees and invest in turning assets and workforce skills into more productive output. This latter ability has tended to improve when the UK economy recovers. Reasons for this recent weakness include inefficient resource allocation, and less innovation in management techniques, business processes or use of technology.

A further issue is thought to be the low interest environment since the financial crisis. The Bank of England itself suggested that this had the consequence of keeping so called 'zombie' companies alive, preventing the kind of 'creative destruction' that can help renovate an economy during a crisis, with less efficient businesses reaping the funding which might have gone to more productive start-ups. The relatively low level of company liquidations in the UK lends credence to this, and the latest figures suggest this has been a factor locally. Nationally 41.2% of businesses formed in 2008 were operating in 2013, whereas in the county the figure was 45.3%¹⁹.

Raising productivity, seen as being a key area of development by the OECD, can lead to greater profitability and help play a role in improving living standards. Despite the recent weakness in productivity, there are some positive signs and output per hour growth recovered slightly towards the end of 2014, whilst there has also been recent real wage growth. Wage growth locally tends to be lower than that nationally, and this also been the case since the recession, with weekly earnings growth in the county being 2.8%²⁰ since 2008, much lower than the 8.1% nationally. Productivity improvement locally is therefore important to reducing the wage differential.

Derbyshire's productivity shortfall is partly a function of its distinctive industrial profile, being a lower skill, lower wage economy. However, it is important that progress is made to secure future living standards. The need to raise productivity features strongly in the [Derbyshire Economic Strategy Statement](#) (DESS). The DESS, for example, identifies the need to capitalise on the input of higher education in innovation; offer high quality business support to enhance competitiveness; embed entrepreneurship within education, and encourage traditional manufacturing to move towards higher value sectors. Whilst productivity improvement is an important element of the DESS, it is likely that productivity is an issue that partners will want to consider through the work linked to the proposed Combined Authority.

- ¹Data for Derbyshire in the review does not include Derby City unless otherwise stated.
- ²Gross Domestic Product (GDP) Preliminary Estimate, Quarter 1 2015, ONS © Crown Copyright. Published April 2015.
- ³Statistical Bulletin, Quarterly National Accounts, Quarter 4 2014, ONS © Crown Copyright. Published March 2015.
- ⁴Statistical Bulletin, Consumer Price Inflation (CPI), January 2015, ONS © Crown Copyright. Published February 2015.
- ⁵Bank of England, Monetary Policy Committee Decisions, May 2015. Published May 2015. Note, this indicator is known as 'the bank rate'.
- ⁶Bank of England Agents' Summary of Business Conditions, April 2015. Published April 2015.
- ⁷East Midlands Chamber of Commerce, Quarterly Economic Survey, Q1 2015. Published April 2015.
- ⁸Derbyshire Economic Partnership, 2014-2015. Published May 2015.
- ⁹The economic activity rate is the percentage of the working age population (age 16-64) who are employed or International Labour Organisation (ILO) unemployed.
- ¹⁰The employment rate is the percentage of the working age population (age 16-64) who are employed including the self employed.
- ¹¹The ILO defines the unemployed as people who are without work, are available to start work within the next two weeks, and have actively sought work within the previous four weeks. This is used in the Annual Population Survey and is not compatible with the claimant count unemployment noted below.
- ¹²Claimant count unemployment is derived from administrative data generated by the system of benefits paid to people who are out of work. It is a different definition and measure of unemployment than the ILO unemployment noted above.
- ¹³Youth unemployment relates to people aged 16-24. The rates at ward level are unofficial and have been calculated using population figures from the 2013 Mid-Year Population Estimates.
- ¹⁴Out of Work Benefits relates to the population claiming Job Seekers Allowance, Employment Support Allowance, Incapacity Benefit, lone parents and others on income related benefits.
- ¹⁵DWP Benefits, November 2014, ONS (Nomis) © Crown Copyright. Published May 2015.
- ¹⁶Housing benefit spare room subsidy is shown as a % of those households claiming housing benefit.
- ¹⁷House Price Index, Land Registry, March 2015, © Crown Copyright. Published April 2015.
- ¹⁸Sub-regional productivity, ONS © Crown Copyright, 2004-2013. Published February 2015.
- ¹⁹Business Demography, ONS © Crown Copyright, 2013. Published December 2014.
- ²⁰Annual Survey of Hours and Earnings, ONS (Nomis) © Crown Copyright, 2014. Published December 2014.



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