

# Cambridge Econometrics

## Press Release

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### **The North-South Divide Widened in the Last Economic Cycle**

Cambridge Econometrics today publishes its latest edition of *Regional Economic Prospects*, containing detailed macroeconomic and industrial forecasts to the year 2020 for the regions of the UK.

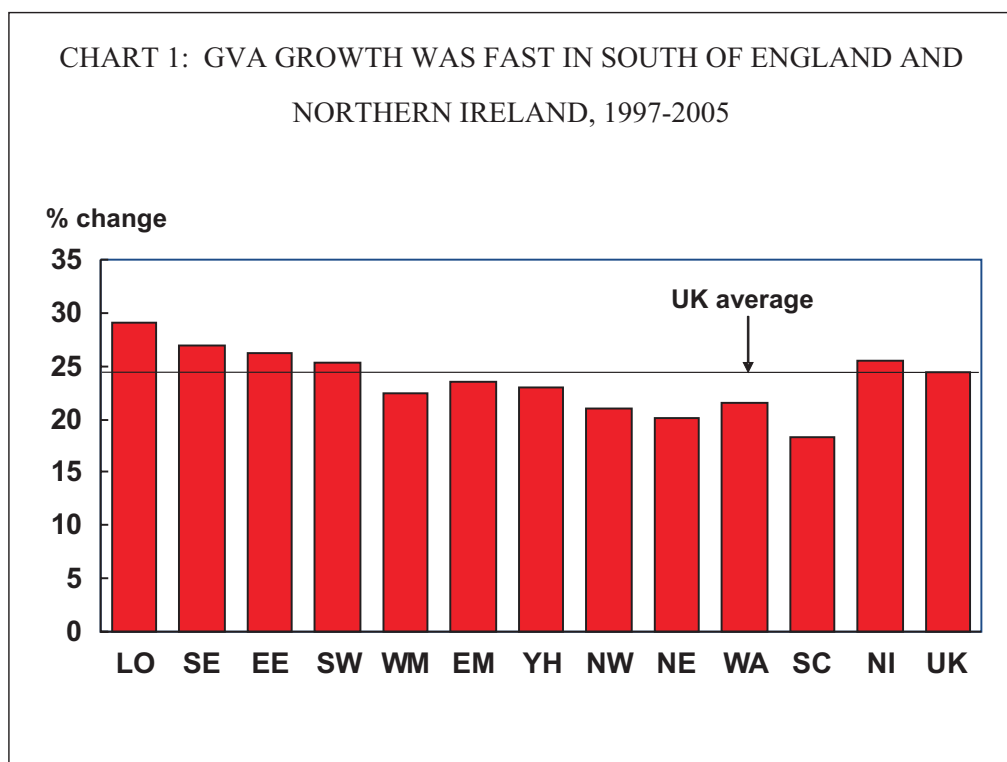
Over 1997-2005, value added (GVA) and employment growth in the midlands and the north lagged the UK average. During this period, employment growth in the midlands and the north came from the expansion of government services and the continuing growth in financial & business services, with the latter concentrated mainly in low productivity activities.

*Most economic indicators reveal a widening of the north-south divide over 1997-2005*

Over the last economic cycle, the divide between southern England and the rest of the country has opened further. Over 1997-2005, only the regions in the south of England and Northern Ireland saw value added grow faster than the UK average. Growth was slowest in Scotland and the North East, 4-6 pp less than the national change (24%).

*Manufacturing output fell sharply in the West Midlands, Wales and Scotland*

The restructuring of the economy from manufacturing to services continued over this period. Output of manufacturing fell slightly for the UK as a whole, but experience varied greatly across the regions: in Northern Ireland manufacturing output increased by almost 15%. In the rest of the country, only regions in the south of England and Yorkshire & the Humber saw a rise in manufacturing output. Manufacturing output



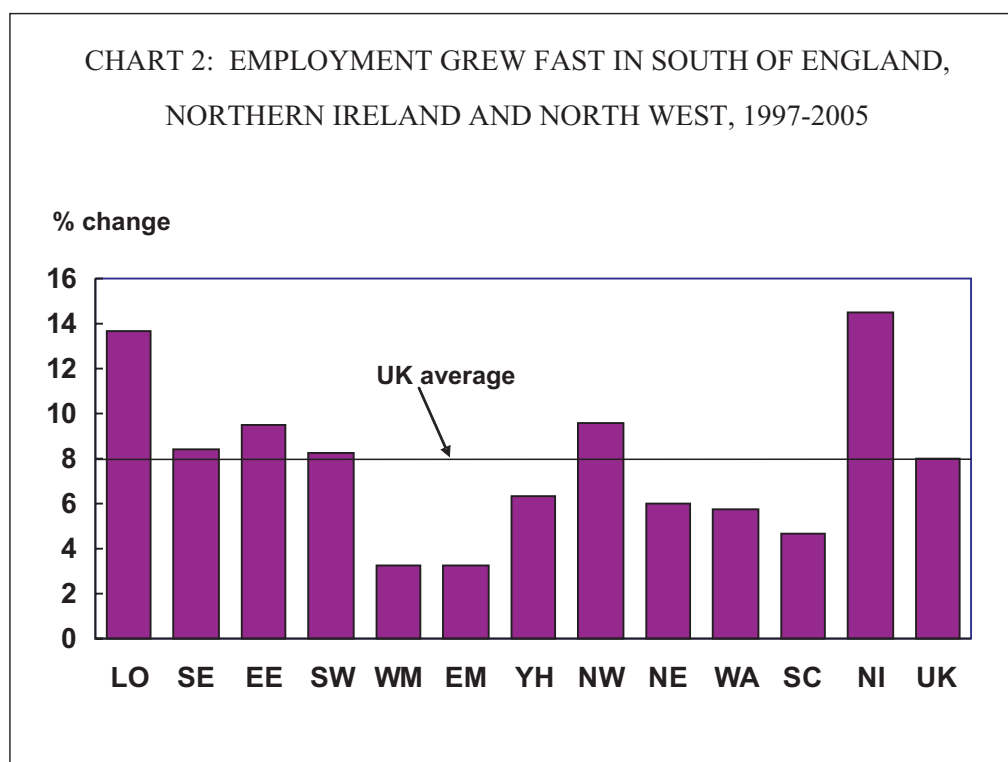
fell most in the West Midlands, by 8%, and in Wales and Scotland, by 5-7%. The brunt of restructuring has therefore fallen on regions in the midlands and north. Strikingly even London saw a (small) increase in manufacturing output, suggesting that the activity that remains in the capital is focused on higher value added work.

*The fastest employment growth was in London and Northern Ireland*

The same broad trends, as in GVA growth, are generally evident in total employment changes. Northern Ireland saw the fastest growth, followed by London. The other regions in the south of England also saw employment grow faster than the national average. Of the other regions, only the North West out-performed the national average. London's employment outperformed the UK average because it is least specialised in the sectors that are shedding jobs most rapidly.

*Financial & business services continued to grow in all regions, but employment changes suggest that in the north growth has been in lower value added activities*

Over 1997-2005 the dynamic sector of financial & business services continued to make a major contribution to overall growth. In terms of output growth, Northern Ireland again stands out, followed by London, which saw output in financial & business services increase by 53%. Most of the other regions in the south of England saw output growth around the UK average (about 45%). Scotland and Wales saw much weaker growth in the sector (35-38%), while the North East was weaker still (28%). Although the North West, the North East, Wales and Scotland saw only modest growth in value added in this sector, they saw strong employment growth, suggesting that growth has been in lower value added activities. In contrast,



employment in London in financial & business services increased by only 16%, compared with a UK average of about 22%.

*Slower growth in government spending may accentuate the north-south divide*

The government sector (here defined as education, health and public administration & defence) played a key role in the creation of new jobs over this period, especially in the midlands and the north of England. In London only 23% of the increase in jobs was due to the increase in government services employment; in the midlands, the North East and Wales, total employment would have fallen had it not been for the increase in government jobs. As the pace of government spending is expected to slow down now, this support to employment growth will diminish. Unless private sector activity rebounds, the north-south divide will be accentuated further, with all the concomitant implications for population movements and housing demand.

*The only indicator to show a clear narrowing in the north-south divide is unemployment*

Perhaps the only indicator to show a clear narrowing in the north-south divide is unemployment. Over 1997-2005 unemployment declined in all the regions, and the decline was fastest in the north of the country and in London. Given the pattern of employment growth already noted, this outcome reflects the slower growth in population in most regions outside of southern England and in many cases the decline in participation rates. A clear exception is the North West where strong employment growth has been associated with a rise in the participation rate (of women).

The faster employment growth in the south of England has led to rising net inward migration in these regions and stronger population growth. Outside of the south of England, only the East Midlands saw population increase faster than the national average, while population declined in the North East and remained static in Scotland.

## Notes for Editors

Cambridge Econometrics is an independent private limited company and has been providing detailed economic and industrial forecasts since 1978. Our work also includes regional and energy forecasts for the UK, and regional and sectoral forecasts for the EU. Our system of quality management for economic modelling has been approved as complying with the international standard ISO 9001:2000. This approval is a rare achievement for a consultancy of our kind, and indeed may be unique.

We provide the most detailed long-term economic, industrial and regional forecasts available for the UK. These are published in *Regional Economic Prospects* twice a year, and on our Knowledge Base website.

The cut-off date for the information used in the report was 6 January 2006.

Subscription to Cambridge Econometrics' Knowledge Base website is normally obtained by subscription to the company's UK regional service at £6,930 pa, although hard copies may be purchased individually at £2,100.

Volume 1: xviii+227 pages, with 110 tables, 126 charts and 3 figures

Volume 2: 174 pages with 116 tables

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