



The economic outlook for York

This report provides an overview of Oxford Economics' forecast for the York economy. These forecasts were produced in February 2014.

Context

2013 was a year of transition for the UK economy. At the turn of the year, data and discussion on the UK economy painted a picture of lacklustre growth and an uncertain growth outlook. Many commentators warned the UK would suffer a 'triple dip' recession in 2013. This fear was accompanied by the Office of Budgetary Responsibility's (OBR) decision to downgrade growth prospects, the UK's credit rating was downgraded, and the IMF calling for greater stimulus. Yet these fears proved unfounded as the UK economy posted healthy growth throughout 2013. Furthermore, not only was a triple dip recession avoided, the 'double-dip' recession in 2011/12 was subsequently erased from the national accounts. By the end of 2013 the UK was among the fastest growing economies in the G7 and talk had turned from economic stagnation to whether growth, with the consumer sector providing the catalyst, was at unsustainable rates.

The turnaround in UK economic fortunes has helped to repair some of the damage done by the recession. Nonetheless, UK GDP at the end of 2013 was 1.4% below its pre-recession peak, recorded in early 2008, and was in the order of 15% below what would have been expected had the economy grown in line with its long run trend. The decline in employment during the recession was relatively shallow and the recovery since strong, with the level of employment in the UK having already surpassed its pre-recession peak to stand at record levels. It is within this context that the outlook for the York economy is based.

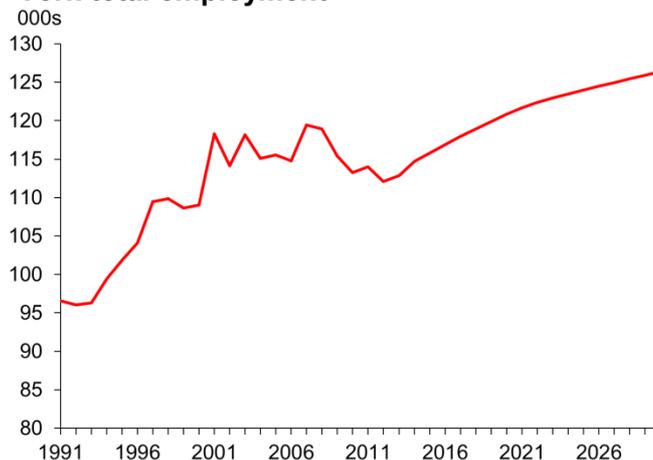
Economic outlook – headline figures

The York economy enjoyed a period of relatively robust growth in the period leading up to the recession. Employment in York increased from 109,100 in 2000 to a peak of 119,500 in 2007, equivalent to growth of 9.5%. Growth at this pace was ahead of both the Yorkshire & Humber and national averages of around 7.5%. The impact of the recession saw employment in York fall to 112,100 by 2012, which we estimate to be the trough in the current cycle, with job numbers rising since then. However, the rate of job losses in York throughout this period was larger than across the UK as a whole, and the recovery in jobs since 2012 weaker. The current level of employment in York remains below its pre-recession peak, a benchmark already achieved across the UK as a whole.

Looking ahead, total employment in York is forecast to grow by 1.7% in 2014, followed by 0.9% and 1.0% respectively in 2015 and 2016. A similar pace of job creation is expected to be maintained across the rest of the decade before slowing to around 0.5% per year by 2030. On this basis, employment in York will return to its pre-recession peak in 2019 and to 126,400 in 2030, 13,500 above current levels.

Two factors explain why employment growth in York is expected to be fastest in the early part of the forecast. First, growth in the short term partly reflects a cyclical bounce back as the economy repairs the damage caused during

York total employment



Source: ONS, Oxford Economics



and since the recession. Second, less favourable demographic developments in the form of little or no growth in the working age population over the longer term limits the extent to which the labour force can expand and therefore becomes a structural constraint to employment growth.

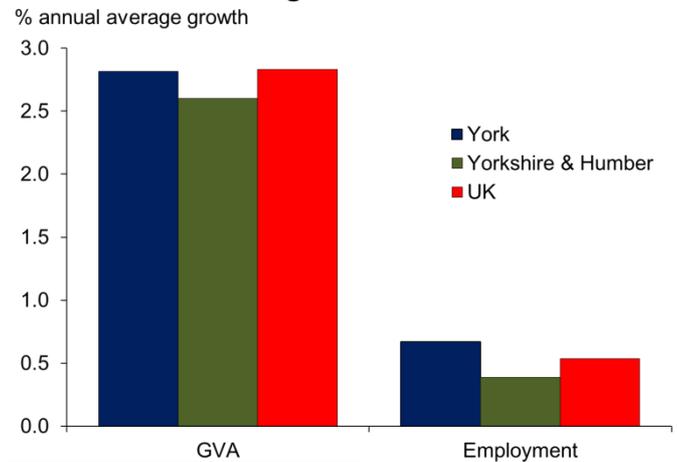
Job creation in York will benefit the local population. The number of York residents in employment is forecast to rise from 106,100 in 2013 to 114,600 in 2030, equivalent to an increase of 8%. This will be accompanied a reduction in the rate and level of unemployment over the forecast period.

York GVA is forecast to grow on average by 2.8% per year between 2013 and 2030, and as with employment, the pace of growth is expected to be strongest in the early part of this period. This equates to an additional £2.4bn of economic activity (measured in constant 2010 prices) and means the York economy will be 56% larger in GVA terms in 2030 than 2013. Productivity growth over this period is forecast to average 2.1% per year.

The economic outlook for York compares favourably against regional and national benchmarks. Employment in York in 2030 is forecast to be 12%¹ higher than in 2013, a greater increase in either Yorkshire & the Humber (6.8%) or the UK (9.5%). This reflects average employment growth of 0.7% per year in York, compared with 0.5% across the UK and 0.4% in Yorkshire and the Humber.

York GVA growth is also expected to exceed that achieved by Yorkshire and the Humber – 2.8% per year against 2.6% per year between 2013 and 2030 – placing York as one of the strongest performing districts in the region. On this measure, York’s performance is forecast to be broadly in line with mainland UK, which itself is boosted by above average rates of growth in London and the wider south east region of England. Productivity growth in York is expected to be a little below the national average.

Headline economic growth 2013-30



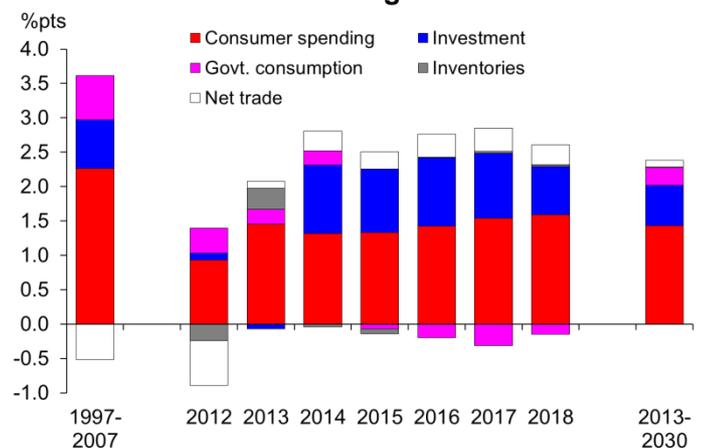
Source : Oxford Economics

Economic outlook – sectoral composition

During the decade leading up to the financial crisis and recession, the UK economy enjoyed one of its longest periods of sustained economic expansion. Growth was fuelled by strong domestic demand, with businesses, government, and most importantly consumers, making the most of cheap and available credit to finance spending. Strong domestic demand was in part satisfied by imports, and with exports failing to grow sufficiently, net trade provided a negative contribution to UK growth.

The need to ‘rebalance’ the economy - so that net trade and investment make a more significant contribution to growth - is both a government aim and a necessity if growth

UK: Contributions to GDP growth



Source : Oxford Economics

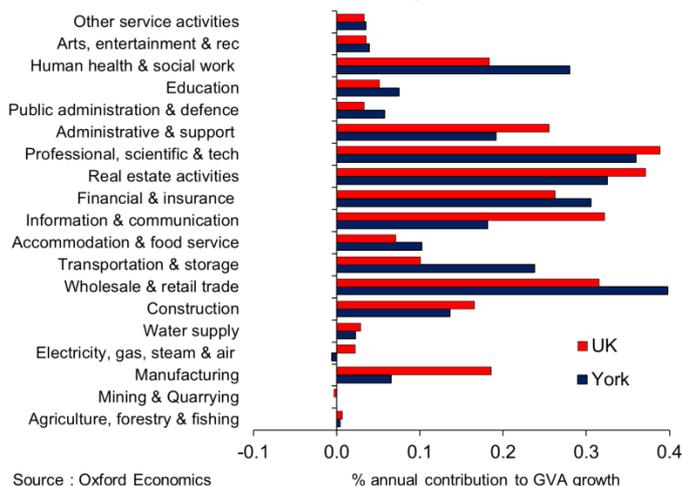
¹ The pace of growth in the number of jobs in York is different to the growth in the number of York residents for two reasons. First, some of the new jobs in York will be taken by in-commuters, and some of York’s working residents will be employed in other local authorities. Second, the workplace figure is a measure of jobs whereas the residence figure is a measure of people.



is to be sustained over the long term. The initial phase of the UK economic recovery has been led by the consumer and housing sector. But once the recovery has become well established, the contribution of consumer spending to GDP growth is expected to be only two thirds of that during the decade leading up to the recession. Government spending, another key growth support in recent years, will also make a much smaller contribution, particularly over the short and medium term as the government's austerity programme dominates the agenda. By contrast, investment will play an increasingly important role in supporting growth, especially in the short term, as businesses invest heavily to compensate for a prolonged period of falling spending. Net trade is also expected to make a small yet positive contribution to growth, reflecting a combination of weaker imports and stronger exports.

A key consequence of these macroeconomic trends is for growth to be largely dependent on private sector activity. This is demonstrated by sectoral profile of growth in York, which shows three quarters of GVA growth between 2013 and 2030 will be provided by private service industries. Growth is expected to be fastest in professional, scientific & technical activities (average 4.6% per year), administrative & support services activities and information & communication (both 4.3% per year). Other major contributions to economic growth, in part because of the size of the sectors, are expected from other private services, especially wholesale & retail trade, York's largest sector accounting for more than 13% of GVA. Real estate is also expected to make a significant contribution to economic activity.

Sector contributions to GVA growth 2013-30



Aside from private services, manufacturing and construction are forecast to post positive growth over the forecast period. But these two sectors are relatively small so make a relatively small contribution to overall economic growth in York. Other production sectors are likely to make negligible contributions. Growth in public services, which together account for approaching a fifth of the York economy, will be mixed. Public administration, and to a lesser extent education, will be weak over the medium term as pressures on government spending persist. Human health & social work is likely to escape the worst of austerity as political preference to protect front line NHS spending and an ageing population help to support rising activity in the sector.

The profile of sectoral contributions to growth in York broadly mirrors that expected nationally. Where sectors are expected to contribute less to growth in York than nationally, such as information & communications and administrative & support activities, the shortfall is normally a consequence of the sector being relatively underrepresented in York, rather than growth in the sector falling short of the UK figure. The main exception is manufacturing, where growth has historically been below average in York and we expect this trend to continue. By contrast, relatively large contributions to growth are expected locally from wholesale & retail trade, transportation & storage and human health & social work, reflecting both above average rates of growth and relatively high concentrations of activity in York.

The importance of private service activity is more pronounced when it comes to job creation over the period to 2030. Just over 13,500 net new jobs are forecast to be created in York between 2013 and 2030, equivalent to an increase of 12%. Of these, the largest contribution will be made by professional, scientific & technical activities where almost 3,000 jobs are forecast to be created, accounting for more than 1 in 5 new jobs in York. Other significant positive contributions are expected elsewhere in the private services sector, most notably in wholesale & retail trade (1,900), administrative & support activities (1,800) and transport & storage (1,600). Most other sectors are expected to record higher employment in York in 2030 than 2013, including the relatively small but growing information & communications



sector and those that support the leisure industry, alongside a recovery in the long suffering construction sector. Employment in human health & social work is also expected to rise significantly, albeit at a rate below the all economy average. Nonetheless, this is in contrast to other parts of the public sector where employment in York is expected to be much weaker. Almost 500 fewer public administration jobs expected in York by 2030, albeit with these losses occurring early in the forecast period, and the number of education jobs is forecast to remain relatively flat. The most significant reduction in jobs is likely from the manufacturing sector. By 2030, employment in York's manufacturing sector is forecast to be 1,200 lower than currently as productivity advancements across the sector means rising activity can be accommodated by fewer workers.

York employment				
	Level		Change 2013-30	
	2013	2030	%	level
Agriculture, forestry & fishing	565	475	-15.9	-90
Mining & Quarrying	0	0	-	-
Manufacturing	4,180	2,991	-28.4	-1,189
Electricity, gas, steam & air	141	64	-54.8	-77
Water supply	366	342	-6.7	-24
Construction	5,077	6,246	23.0	1,169
Wholesale & retail trade	17,216	19,125	11.1	1,908
Transportation & storage	10,651	12,277	15.3	1,626
Accommodation & food service	9,828	10,922	11.1	1,094
Information & communication	2,900	3,637	25.4	737
Financial & insurance	5,150	5,378	4.4	228
Real estate activities	1,182	1,764	49.2	582
Professional, scientific & tech	8,569	11,566	35.0	2,997
Administrative & support	6,095	7,911	29.8	1,816
Public administration & defence	5,643	5,153	-8.7	-490
Education	11,748	11,849	0.9	101
Human health & social work	16,976	18,423	8.5	1,447
Arts, entertainment & rec	3,552	4,693	32.1	1,141
Other service activities	3,018	3,597	19.2	579
Total	112,857	126,412	12.0	13,555

Source: Oxford Economics

Demographic outlook

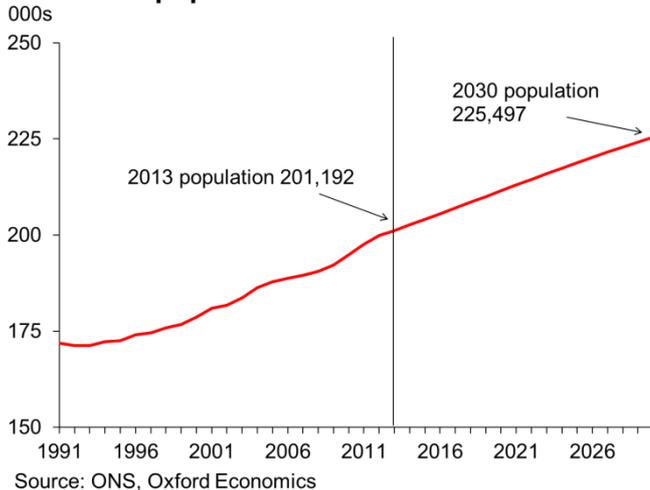
The population of York was 201,200 in 2013. The number of people living in York has risen consistently over the last decade with growth averaging 0.9% per year. Population growth in York has been faster than both the Yorkshire & the Humber and UK averages in recent years, largely due to positive net migration. Natural change made a smaller yet still positive contribution to York population growth over this period.

York's population is forecast to grow on average by 0.7% per year between 2013 and 2030, slightly less than recorded over the past decade. This will see the number of people living in York reach 225,500 by 2030, an increase on current level of 24,300. Growth over this period is expected to remain faster in York than for the wider region (0.5% per year) or the UK as a whole (0.6% per year).

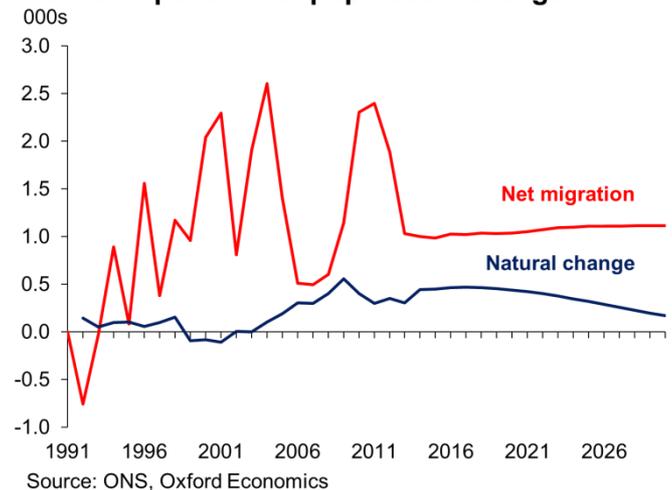


Population growth in York will be driven by a combination of natural change and net in migration. Of the additional 24,300 increase over the forecast period, 18,100 are forecast to be supplied by net migration and 6,200 through natural change. This composition is broadly in line with that recorded over the past decade, although in absolute terms, net migration into York is forecast to be lower in the future than it has been in the past.

York total population



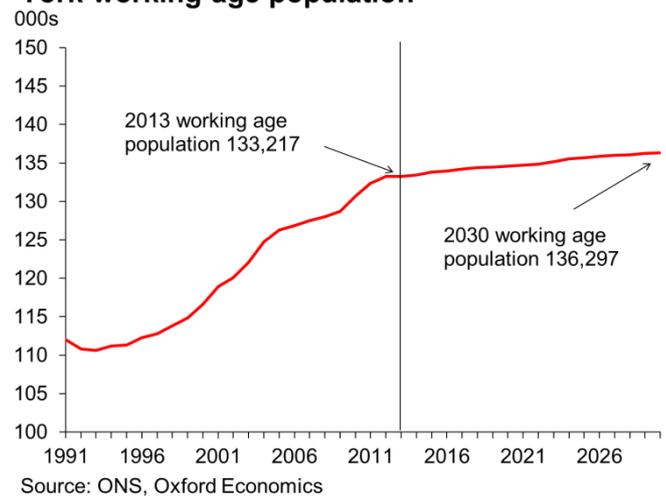
York components of population change



The forecast of the natural change element of population growth in York is consistent with birth and death rate assumptions incorporated in official Government projections. Net migration into York is assumed to be 'economically driven' and therefore shaped by local economic prospects, the rationale being that migrants are attracted to areas where there are perceived to be employment opportunities. This ensures consistency between the labour market and demographic forecasts.

The working age population of York, whilst influenced by natural change, is especially affected by migration patterns as migrants tend to be of working age². The number of people of working age living in York currently numbers 133,200, equivalent to 66.2% of the total population. The working age population of York has increased steadily over the past decade at an average rate of 0.9% per year, which was in line with the total population. The pace of growth is likely to slow in the future, averaging just 0.1% per year between 2013 and 2030, and therefore sees the working age accounting for a falling share of total population. Slower growth in the working age population will be underpinned by a combination of natural demographic trends (most notably a falling birth rate and longer life expectancy) and lower net migration. This is consistent with the pattern expected across the UK generally.

York working age population



² The working age population is defined as all people aged 16 to 64.



Forecast comparisons

This section compares the York forecast presented above those produced by Oxford Economics in November 2012.

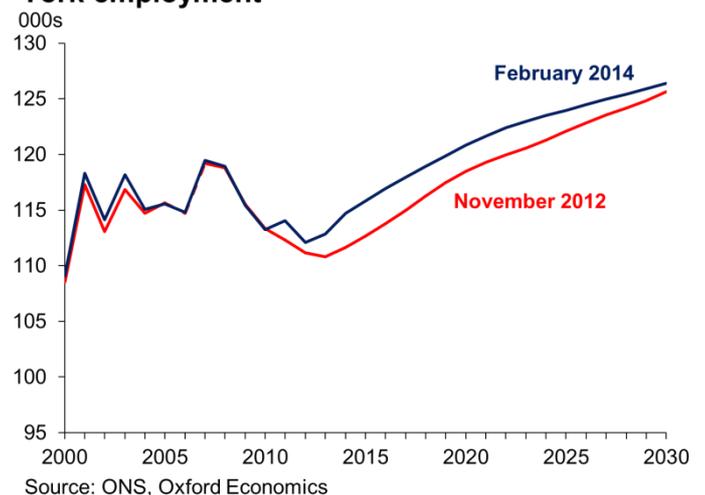
Oxford Economics' forecast November 2012 and February 2014

There are two key factors that explain much of the difference in the forecasts produced by Oxford Economics in November 2012 and February 2014:-

- 1. Changes to historical data.** The historical data underpinning the two forecasts will be different. This reflects both the release of new historical data (for example, BRES³ data for York was available to 2011 in November 2012, and to 2012 in February 2014) and revisions to historical data (for example, UK national accounts data is regularly revised which affects historical trends and levels of GDP, both at the national and local level). Changes to historical data affect both the starting level for the forecast and the structural composition of the economy upon which the forecast is based.
- 2. Revisions to the economic outlook.** The forecast for any location is predicated on assumptions about the scale and composition of future economic growth. These assumptions will encompass a wide range of factors including, but not limited to, an assessment of international growth prospects (for example, the strength of the global economy and potential risks to the outlook), domestic growth factors (for example, the role that government or monetary policy will play in influencing national and local economic growth) and local demand and supply conditions. The strength of the UK economy over the past 12 months exceeded expectations, confidence about the stability and viability of the Eurozone has grown, and global growth conditions are improving. This has led to the upward revision to short term forecasts for the UK economy. Long term growth rates are less affected.

The long term forecasts for the level of total employment in York are comparable across the two datasets. In November 2012, Oxford Economics forecast York employment in 2030 to be 125,621 compared with the current forecast of 126,412. This represents a difference of 791 jobs or 0.6%. This difference largely reflects the current estimate of employment in York in 2013 being higher than predicted in November 2012. This is a consequence of the stronger than anticipated recovery achieved by the UK labour market through 2012 and 2013. Indeed, the number of new jobs expected in York by 2030 in the current forecast is smaller than was estimated in November 2012. This reflects an assumption that some job creation was 'brought forward'. In both datasets, average annual employment growth in York between 2013 and 2030 is forecast to be 0.7%.

York employment



Long term GVA forecasts for York are also very similar across the two datasets. In November 2012, York GVA was forecast to grow at an average annual rate of 2.9% per year. The corresponding figure in the February 2014 dataset is

³ The Business Register and Employment Survey (BRES) is the official source of employee and employment estimates published by the Office for National Statistics. This is the main source of employment information for York.



2.8%. The accompanying productivity growth assumptions for the York economy over the period 2013 to 2030 therefore also remain relatively unchanged. Productivity is currently forecast to grow on average by 2.1% per year over the forecast period, in line with that projected in November 2012.

The demographic assumptions supporting the economic forecasts are also relatively similar in the two Oxford Economics' datasets. In November 2012, the population of York in 2030 was forecast to be 226,202. The latest forecast has a level of 225,497, equivalent to 705 fewer residents than previously expected. Average annual growth over the 2013 to 2030 period is comparable in both datasets at 0.7% per year. The contribution from net migration to population growth in York is marginally higher in the February 2014 forecast than the November 2012 forecast.

York employment							
Oxford Economics' forecasts comparison Nov 2012 and Feb 2014	Level - Nov 2012		Level - Feb 2014		Level change 2013-30		
	2013	2030	2013	2030	Nov 2012	Feb 2014	Diff
Agriculture, forestry & fishing	607	504	565	475	-102	-90	13
Mining & Quarrying	0	0	0	0	0	0	0
Manufacturing	4,081	2,951	4,180	2,991	-1,130	-1,189	-59
Electricity, gas, steam & air	113	62	141	64	-51	-77	-26
Water supply	370	351	366	342	-18	-24	-6
Construction	5,049	6,120	5,077	6,246	1,071	1,169	97
Wholesale & retail trade	16,292	19,414	17,216	19,125	3,122	1,908	-1,213
Transportation & storage	12,090	13,752	10,651	12,277	1,662	1,626	-36
Accommodation & food service	9,211	9,385	9,828	10,922	173	1,094	921
Information & communication	2,630	2,972	2,900	3,637	342	737	394
Financial & insurance	5,783	6,421	5,150	5,378	638	228	-410
Real estate activities	816	1,258	1,182	1,764	442	582	140
Professional, scientific & tech	7,020	9,554	8,569	11,566	2,534	2,997	464
Administrative & support	6,807	8,896	6,095	7,911	2,090	1,816	-273
Public administration & defence	5,745	5,499	5,643	5,153	-246	-490	-244
Education	11,331	11,153	11,748	11,849	-177	101	278
Human health & social work	16,340	18,827	16,976	18,423	2,487	1,447	-1,040
Arts, entertainment & rec	3,267	4,477	3,552	4,693	1,209	1,141	-68
Other service activities	3,278	4,026	3,018	3,597	748	579	-168
Total	110,829	125,621	112,857	126,412	14,792	13,555	-1,237

Source: Oxford Economics

As previously noted, the absolute change in York total employment over the period 2013 to 2030 is similar across the two Oxford Economics' datasets, with part of the revision explained by a higher starting level of employment in 2013. There is greater revision at the individual sector level, although a number of key trends remain consistent between datasets. These include:-

- The same five sectors are forecast to contribute around 3 in every 4 net new jobs created in York. These sectors are professional, scientific & technical activities; wholesale & retail trade; administrative & support activities; transportation & storage; human health & social work.
- Of the large employment sectors (currently numbering at least 5,000 jobs), the pace of job creation in York will be fastest in professional, scientific & technical activities and administrative & support activities.
- The most significant job losses in absolute terms are expected from the manufacturing sector. Other notable job losses are forecast from public administration.



The most significant revisions to the sector forecasts, and the reasons for these revisions, are:-

- Wholesale & retail trade. Significant employment growth is predicted in York for this sector in both datasets. The February 2014 forecast has fewer net new jobs between 2013 and 2030, mainly because the level of employment in 2013 is estimated to be higher than previously. Both datasets share the assumption that this sector will account for approximately 15% of York employment in 2030.
- Accommodation & food service. The February 2014 dataset has a higher level and stronger growth in employment for this sector. This reflects a combination of factors, including a higher starting level in 2013 and an upward revision to future growth at the UK level.
- Human health & social work. Both datasets project significant employment growth in this sector in York. However, the February 2014 dataset has fewer net new jobs over the forecast due to the level of employment in 2013 being higher than anticipated, and the pace of future growth being reduced to reflect national level trends.