
**ECONOMIC TRENDS IN TYNE AND WEAR
A TEN YEAR REVIEW**

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By
Peter Sturman
Kadhem Jallab

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TYNE & WEAR RESEARCH AND INFORMATION

1st Floor Provincial House
Northumberland Street
Newcastle upon Tyne
NE1 7DQ

Tel: (0191) 277 1912, Fax: (0191) 277 1911

E-MAIL: twri@twri.org.uk

WEBSITE: www.twri.org.uk

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KEY POINTS/ EXECUTIVE SUMMARY

This study focuses on the performance of the Tyne & Wear economy since 1987, reviewing it both in comparison to national indicators and its previous recent history. Relative to national indicators, in a sentence, *business* performance has improved markedly but *income* of residents has generally performed more poorly.

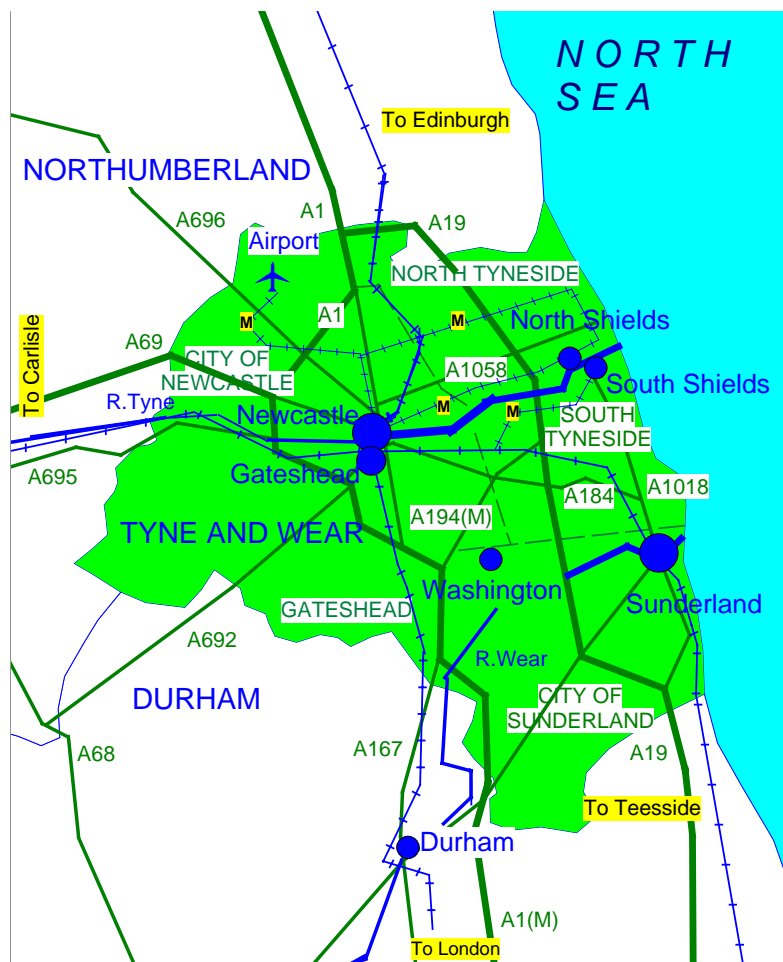
- Tyne & Wear's economic performance has been **much stronger since about 1987** than in the previous decade.
- Tyne & Wear made a **very significant improvement between 1989-93**, relative to the UK. In this period its **GDP growth was 7% faster than in the UK** (p8). The local economy grew through the UK recession. **Manufacturing** output and productivity dramatically out-stripped the UK.
- The **differential in unemployment rates**, between Tyne & Wear and UK, halved from six percentage points to three. Other indicators improved in this period, notably migration (and net population change) which swung dramatically from negative to positive. The unemployment rate remains, however, about 1.5 times the national rate.
- Very broadly, claimant **unemployment has improved south of the Tyne** relative to districts north of the Tyne (p18).
- In effect about **60,000 people have left unemployment, and the labour market, and disappeared**. Although claimant unemployment has fallen by about 60,000 since 1986, there has been no corresponding rise in employment. Rather, large numbers of people have left the labour market. The figures are not measured directly but a reasonable estimate is that nearly 20,000 have migrated out of the county. Another 25,000 or so have probably been added to the numbers on Incapacity Benefit (ie "permanently sick") (pp26 and 28).
- The **"business base"** (number of firms) performed much less weakly. It has **halved its rate of under-performance** (relative to the UK) in the 1990s compared with the 1980s (p12).
- The key **causes** of the economic out-performance between 1989 and 1993 were both national and local. This period of marked relative economic improvement was probably largely due to the effects of the **monetary policy** of the time (i.e. high interest rates). This hit the over-borrowed southern (and therefore UK) economy much more than Tyne & Wear. **Local factors helped**. In particular, the shipbuilding industry's decline was no longer a significant drag. Substantial inward investment made a major contribution to raising manufacturing productivity and output. The decline in earnings, relative to GB, up to 1988 helped to make it a low-cost UK location. The Development Corporation and other agencies, and the Enterprise Zone, helped to attract substantial investment.
- **Employment has improved dramatically in an historic perspective**, when comparing the period since 1987 with the decade before, and been broadly flat, like GB (p21).
- Despite the relative economic improvement during 1989-93, **Household Disposable Income** has fallen since 1987, relative to the UK, by about 4% (p29). One important factor is the impact of benefits income being pegged to inflation rather than earnings. **High dependence on benefits** will have depressed Tyne & Wear figures, relative to those of the UK.
- **Earnings**, relative to GB, have fallen for men since 1988/89 but women's earnings have risen (p23).

- Since 1994 indications from migration and GDP are that the Tyne & Wear economy has been on a **much weaker trend** than in 1989-93 (p32 and p8).
- **Since 1993 the Tyne & Wear economy has under-performed the UK**, according to preliminary indications especially from GDP and migration. Despite this, the indications (from a survey of business conditions) are that manufacturing has continued to perform strongly.
- Importantly, this research shows that **clear structural improvements** have been achieved in the decade or so since 1986 in the performance of the Tyne & Wear economy: a quarter of the GDP gap (opened up since 1977) has been re-couped, manufacturing productivity has risen above the UK average, and manufacturing output has grown rapidly. Most dramatic of all, to grow through the national recession of 1990-92 was a welcome contrast with the previous recession of 1979-81 which was prolonged locally with five years or so of further decline.

A BRIEF SUMMARY OF TYNE & WEAR

Tyne & Wear is situated in the North East of England. It is one of the eight major conurbations in Great Britain, with a population of about 1.1 million. The population is falling slowly and, in terms of age profile, slightly older than the average.

The economy has a number of distinguishing features. Although the area is known historically for its shipbuilding, this had declined to a low level by 1986. In 1995 the last shipbuilder, Swan Hunter, ceased to make ships. In fact, the proportion of employment in services is above the national average. Within manufacturing, engineering is very prominent. This is a marked contrast with Teesside where the process industries are most prominent. Establishment size is well above the national average in manufacturing (about 1.5 times in 1993). Within the service sector, retailing and public services are over-represented but financial and business services are under-represented. Unemployment rates have been above national averages since the 1920s. Earnings are relatively low for a conurbation, at about a tenth below the national average.



1. INTRODUCTION

This report was prompted by the picture which was emerging by combining the findings on single indicators into a wider more coherent whole. This showed that Tyne & Wear's performance was clearly much better after about 1987 than before. It also showed that the improvement was up to 1993, and especially after 1989.

The **central aim** of the report is to make a **substantial contribution to the debate on local economic policy and "regeneration"**. TWRI is in a unique position to produce this report as it has maintained the databases of official data for the last ten years and inherited several which go back even further. The report makes use of the most rigorous, relevant, available data on the local economy. It is a unique publication. It brings together, in a single document, the results of much of TWRI's analysis of the Tyne & Wear economy over the last ten years.

The report is timely for several reasons. First, the Tyne & Wear Development Corporation was wound up in March 1998. Secondly, there are opportunities from a new policy environment. The new government is setting up Regional Development Agencies (RDAs), including one for the North East, which will have wide-ranging powers and responsibilities in the field of economic development.

The report seeks to answer the question "**Has Tyne & Wear's economic performance improved, relative to the UK, in the last ten years?**" The answer is a fairly clear "yes" but with the important caveat that although business indicators have improved, some indicators of income have deteriorated and employment performance has been weaker than nationally. Furthermore, the halving of unemployment looks much less impressive in the context of a huge rise in economic inactivity, especially permanent sickness.

The **methodology** has been to take a new, **long and comprehensive perspective** on the Tyne & Wear economy. Data have been reported, where possible, for the period since 1986 and sometimes longer. About twenty economic and socio-economic variables are analysed. This is usually official data, but some other data (from a survey on business conditions) are used. The report is therefore wide-ranging, comprehensively analysing the reputable data. One particular value of this report is that links between indicators can be seen. Indeed, highlighting these co-incidences and links is a major aim of the report.

Part 2 analyses the business indicators, which have shown strong performance. The report argues that the main reason for Tyne & Wear's big relative improvement in 1989-93 was monetary policy (high interest rates). **Monetary policy** has been a very **powerful force** behind local economic performance. High interest rates hit the south harder than the north. In 1989 base rate reached 15% and was held there for a year. Southerners were more highly borrowed than northerners [source: Business Strategies]. The resulting sharp setback for the south and the UK followed structural improvements in Tyne & Wear. The end result was that Tyne & Wear sharply improved its economic performance relative to the UK in the period to 1992/93. There is corroboration for this improvement in VAT registrations, house prices and migration data. This is in stark contrast to the UK recession of 1979-81 which in Tyne & Wear was followed by about another five years of profound economic decline. In the early 1990s, therefore, Tyne & Wear had something of a windfall for its relative prosperity.

Local factors undoubtedly played a part in the partial economic recovery of Tyne & Wear. A very large effort has been made, by many agencies, to "regenerate" the local economy especially since 1986. In an economy worth over £10,000m annually these efforts are, however, inevitably, at the margin. This report is a measure of what has been achieved, and also what remains to be done.

Part 3 shows that **unemployment peaked in 1986 at over 100,000**. Over 80,000 jobs as employees had been lost since 1978, a huge drop of about 16%. Around 1986 the Tyne & Wear economy stopped declining precipitately and since then it has followed a new, more positive, track. The reasons for

this stabilisation of the local economy are numerous. Three big factors were the end of shipbuilding as a drag on the local economy, the opening of Nissan and the opening of the MetroCentre. Shipbuilding had accounted for about 25,000 or nearly a third of all the net job losses since 1978, a drag of about 3,000 job losses each year. Nissan brought about 5,000 direct job gains. The MetroCentre opened employing about 6,000 people.

Part 4 shows that **some income indicators** have continued to **deteriorate** relative to the UK, notably Household Disposable Income. Numbers on Income Support have also risen, despite the fall in claimant unemployment. Earnings have improved for women but deteriorated for men. A lot of **unemployment** has apparently disappeared into a **“black hole” since 1986**. Although, since then, unemployment has fallen by 60,000 employment is broadly unchanged at around 420,000. Large numbers of people have left the labour market. Another 22,600 people of working age have migrated out of the county (net 1986-96). Large numbers of people are excluded from the official claimant count. The numbers on Incapacity Benefit (and its predecessor Invalidity Benefit) have risen hugely nationally since the early 1980s. The (pre-1995) data are not available below regional level. The Intercensal survey (akin to the full census) by Newcastle City Council shows a massive rise in the population describing itself as “permanently sick”.

Part 5 shows that **migration and population change reflects the economic performance** of the county. Indeed, since these data are available more quickly than official data on the local economy, they are good predictors of the official data on local economic performance.

Part 6 shows that available indicators tend to show **since 1993 the local economy has underperformed the UK**. The data for GDP, and migration, are particularly strong in pointing this way.

One key thread throughout is that **Tyne & Wear grew through the UK recession of 1990-92**. GDP growth exceeded the UK by about seven percentage points (1989-93). Manufacturing growth also underpinned the relatively mild rise in unemployment. It was essentially in this period that the Tyne & Wear economy narrowed the gap between its performance and the national. The unemployment differential halved to about three percentage points and has remained at around this level.

2. BUSINESS INDICATORS

This part (2) of the report examines the major indicators of business performance and part 3 examines claimant unemployment. These are the “positive indicators”. On the basis of these indicators, some commentators take the view that the local economy has recovered. It has been “regenerated”. This claim is often linked with inward investment.

This report will, however, show that although the business indicators over the last ten years are all more positive than the UK and claimant unemployment has fallen to within three percentage points of the national average, there are two important caveats. First, the data on incomes are very mixed at best. (These are covered in Part 4). Some indicators of incomes have fallen relative to the UK. Earnings for men have not improved relative to GB. Secondly, indications since 1993 are that performance has generally deteriorated relative to national trends.

2.1. GROSS DOMESTIC PRODUCT (OUTPUT)

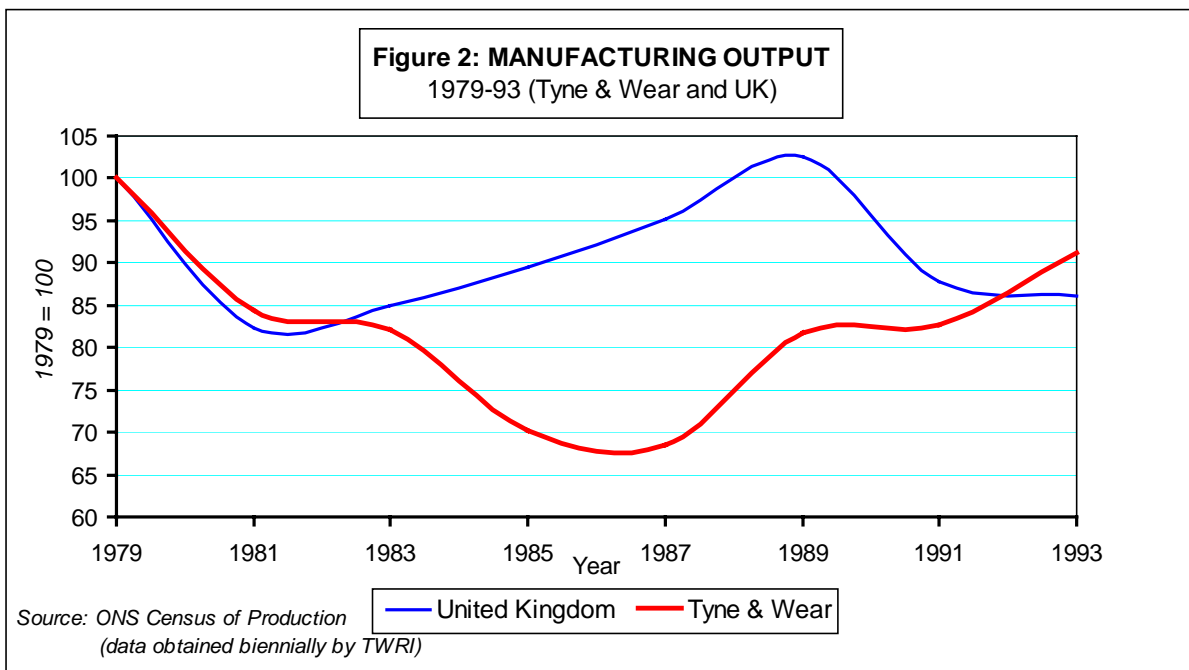
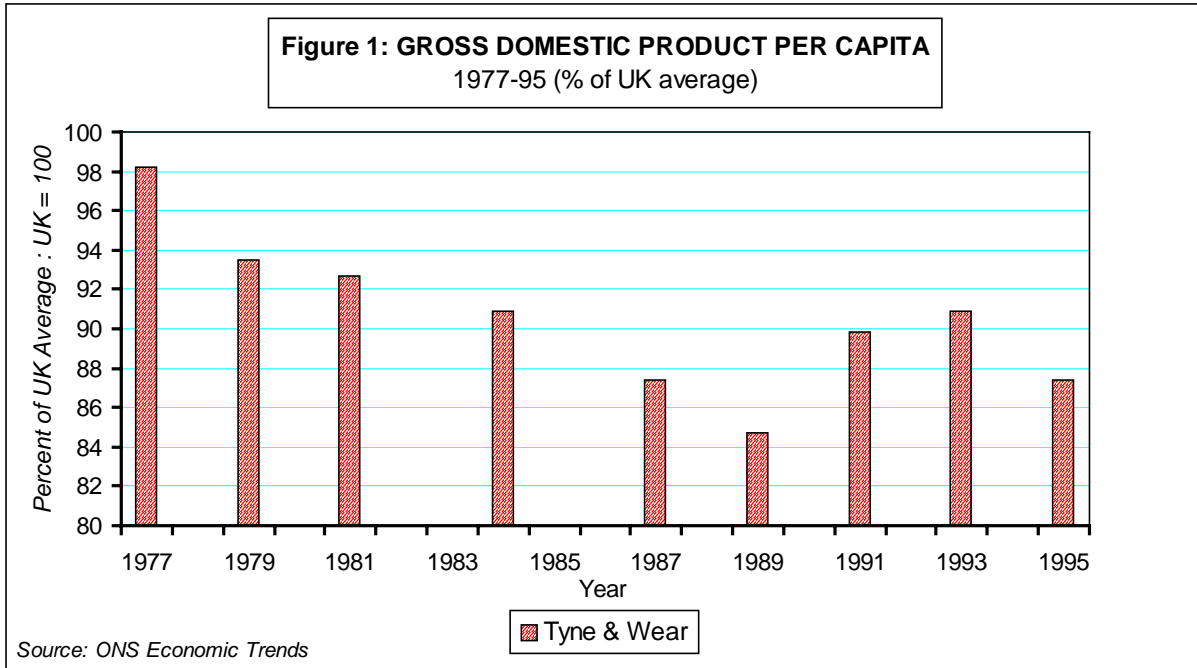
Gross Domestic Product (GDP) is **the widest measure of economic activity** (output). It covers the whole monetary economy; manufacturing, primary production, and services including public services. The Tyne & Wear economy had a GDP of **just over £10,000m in 1995** (the latest available official figure). A reasonable projection to 1997 would be over £11,000m. The official estimate of county GDP is effectively a measure of *productiveness*. The GDP figure is largely workplace-based and thus substantial net in-commuting makes it overstate the prosperity of residents. About 7% of people (30,000) working in Tyne & Wear are net in-commuters. They are probably, on average, more highly paid than residents. Thus, although Tyne & Wear's 1995 per capita GDP index may be 87.4% of the UK (Source: Economic Trends, January 1998), the prosperity of *residents* may be more like 80% of the UK average.

Per capita GDP, as an index of the UK average, rose sharply between 1989 and 1993 - by about seven percentage points. This coincided with a sharp relative improvement in manufacturing output and under-pinned the fall in the unemployment differential between Tyne & Wear and UK rates.

Tyne & Wear's real GDP grew much more quickly than the UK's between 1987 and 1993, by about 5 percentage points. Using the same price deflator as for the UK (the GDP deflator at factor cost) in these six years, UK real GDP grew by only 7.4% whereas Tyne & Wear's grew by an estimated 12.6%. Tyne & Wear's real growth rate of GDP is thus estimated at an annual rate of about 2% over this period. This is almost as fast as the UK's long-run annual rate (averaged over a number of decades) of 2.25% or so. By contrast, the UK recession of 1990-92 cut the UK's average annual growth rate, over these six years, to around a meagre 1.2%. Effectively, Tyne & Wear grew through the UK recession. **Only a quarter of the under-performance of the twelve years 1977-89 has been re-couped.** As Fig. 1 shows, Tyne & Wear's per capita GDP fell (relative to the UK) by nearly 14% over the twelve years 1977-89. Tyne & Wear's out-performance between 1989 and 1993 recovered half of this lost ground. Between 1993 and 1995, however, Tyne & Wear's per capita GDP index fell by 3.5%. The fall in Tyne & Wear's GDP index between 1993-95 could imply real GDP growth of about 3.8% or nearly 2% pa.. Again, this suggests Tyne & Wear's economy continued to grow at a steady pace.

2.2 MANUFACTURING OUTPUT (GROSS VALUE-ADDED)

Manufacturing output has sharply reversed its steep decline of 1979-87. It fell by over 30% from 1979 to 1985-87 in real terms, i.e. after inflation (Fig. 2). The mechanical and electrical engineering industries, as well as shipbuilding, declined particularly severely. Manufacturing output has, however,



been on a steeply rising trend since 1987, rising over 30% in the six years to 1993. By 1993, Tyne & Wear had recovered to the extent that it out-performed the UK over the full period since 1979. An average rate of manufacturing output growth since 1987 of about 5% pa is truly outstanding.

Rapid manufacturing output growth was not just the effect of the new motor industry, at least up to 1991, as detailed analysis (by TWRI) of the County tables of the Census of Production shows. The 1993 analysis is unfortunately obscured by the introduction of a new industry coding scheme (the Standard Industrial Classification 1992) which combined the motor industry with shipbuilding. All data on manufacturing come from the Census of Production.

The sharp growth in manufacturing output since 1987 has been associated with even faster productivity growth. Manufacturing employment has therefore fallen, since 1987, from about 90,000 to 77,000 (in 1993).

Manufacturing accounts for over 25% of Tyne & Wear's GDP (£2,500m manufacturing GVA / £9,800m GDP at factor cost in 1993). This is considerably above the 1993 national average of 21% (£112.7bn. / £631.0bn). The share of GDP derived from manufacturing rose in Tyne & Wear between 1987 and 1993 because manufacturing output growth (about 32%) was far faster than the real growth of GDP (estimated at 13%).

Readers interested in further details on the performance of manufacturing in Tyne & Wear should see TWRI reports on "Manufacturing in Tyne & Wear" . [The raw data, in these reports and this report, have been converted to real terms using deflators supplied by ONS and more recently using the GDP deflator]. TWRI has analysed the Census of Production county tables on a bi-ennial basis for the data since 1979.

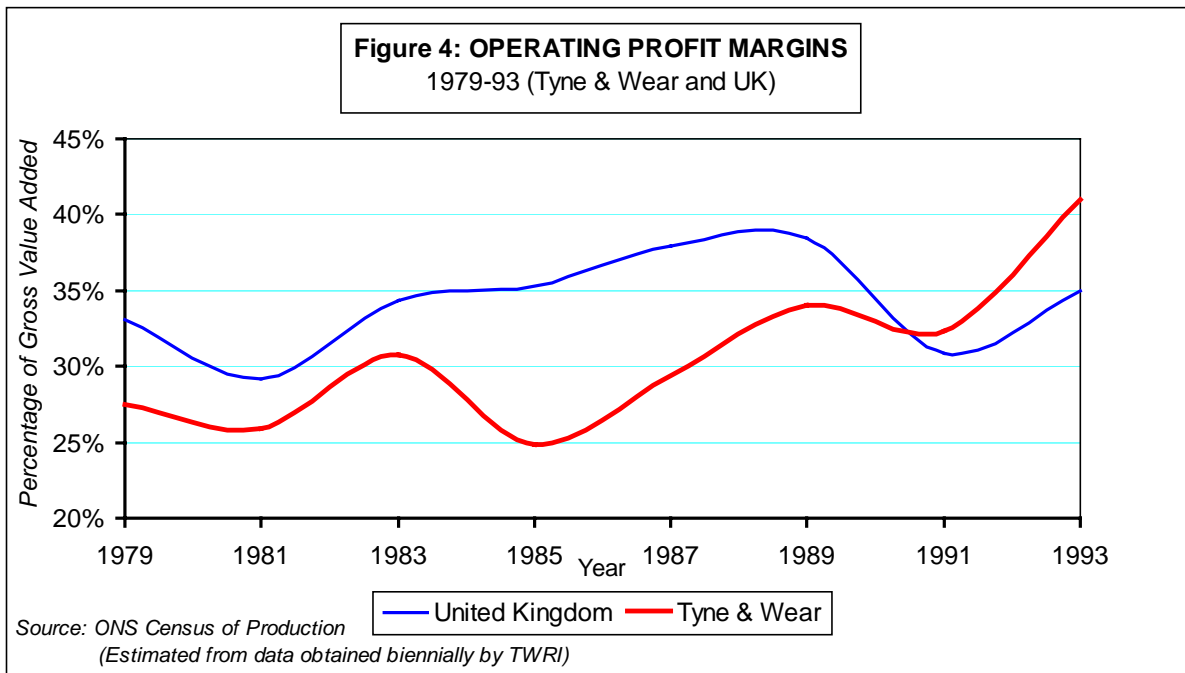
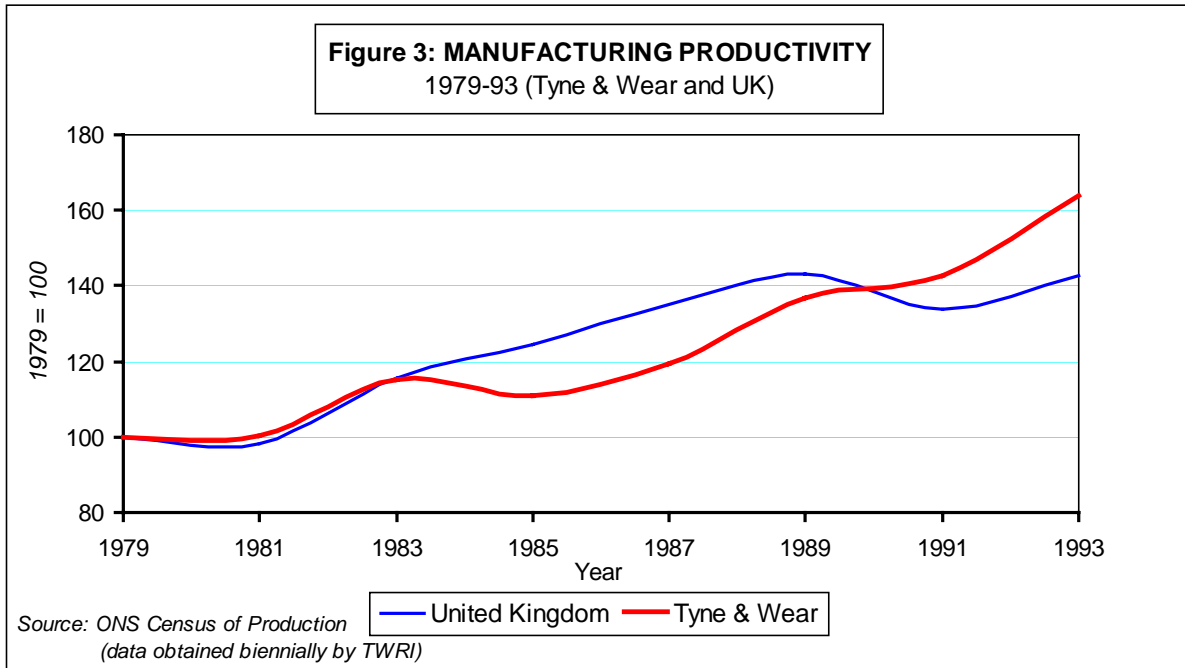
2.3 MANUFACTURING PRODUCTIVITY

Since 1987, manufacturing productivity has grown more quickly than in the UK (Fig. 3). In the middle 1980s it was **lagging seriously** behind the UK average (by about 15% in 1985 and 1987). During the 1990s manufacturing productivity has exceeded that of the UK. In 1993 the level of manufacturing productivity was £29,400 per employee [£25,600 at 1990 prices], 9% above the UK average of £27,000.

Manufacturing productivity growth in Tyne & Wear has been helped by the **strong growth in output**. When output grows strongly firms do not have to cut jobs so quickly to boost productivity.

Manufacturing in Tyne & Wear has become more **capital-intensive** over the last decade. This tends to boost labour productivity. For example, productivity in the Tyne & Wear transport equipment industry (largely the motor industry), which was £50,600 in 1993, is 72% above the Tyne & Wear manufacturing average. It is also 64% above the UK transport equipment industry average. The capital invested for each of the 4,000 or so employees is huge: about £0.25m for each employee at current prices or perhaps about £0.4m at 1997 prices. (Based on figures given for the total cost of the plant, reported at £1-1.2bn so far).

Overall manufacturing productivity also rises because of the change in **industrial structure** within the sector. Low productivity industries have declined (shipbuilding, textiles, food & drink, metal manufacture, etc.) and high productivity industries grown (notably chemicals and the motor industry). Within industries, the **product mix** has changed towards higher value-added products, notably in Electrical & Electronic Engineering from heavy electrical products to electronics. Tyne & Wear now has major manufacturers of PCBs (printed circuit boards; Viasystems) and micro-chips (Siemens). All of Siemens' and the bulk of Viasystems' growth has been since the latest official figures (1993).



2.4 OPERATING PROFIT MARGINS IN MANUFACTURING

Operating profit margins in manufacturing were **transformed**. Margins improved from about 25% in 1985 to over 40% in 1993 (Fig. 4). Margins were higher than in the UK in 1991 (at 33%), which had not been the case since 1979. In 1985, margins were ten percentage points lower than those for the UK. By 1993, they were over five percentage points higher than in the UK. Operating profits in Tyne & Wear in 1993 are estimated at over £1bn.

Rising capital-intensity could be a major reason for the improvement in margins. Firms which have increased their capital-intensity have to make higher margins to be able to **service the large amount of capital invested**. High margins probably also partly reflect the change in the industrial structure and product mix within manufacturing. If operating profit margins had not risen in this way the return on capital employed (ROCE) in manufacturing would have fallen, with serious negative consequences for the sector's prospects.

Some of the improvement in margins is due to more efficient use of existing capital, rather than to rising capital-intensity. This can be seen in the rises in margins across a wide range of industries, not just those with heavy investment. Rising capacity-utilisation during the growth phase of the economic cycle may well have pushed up margins across this wide range of industries.

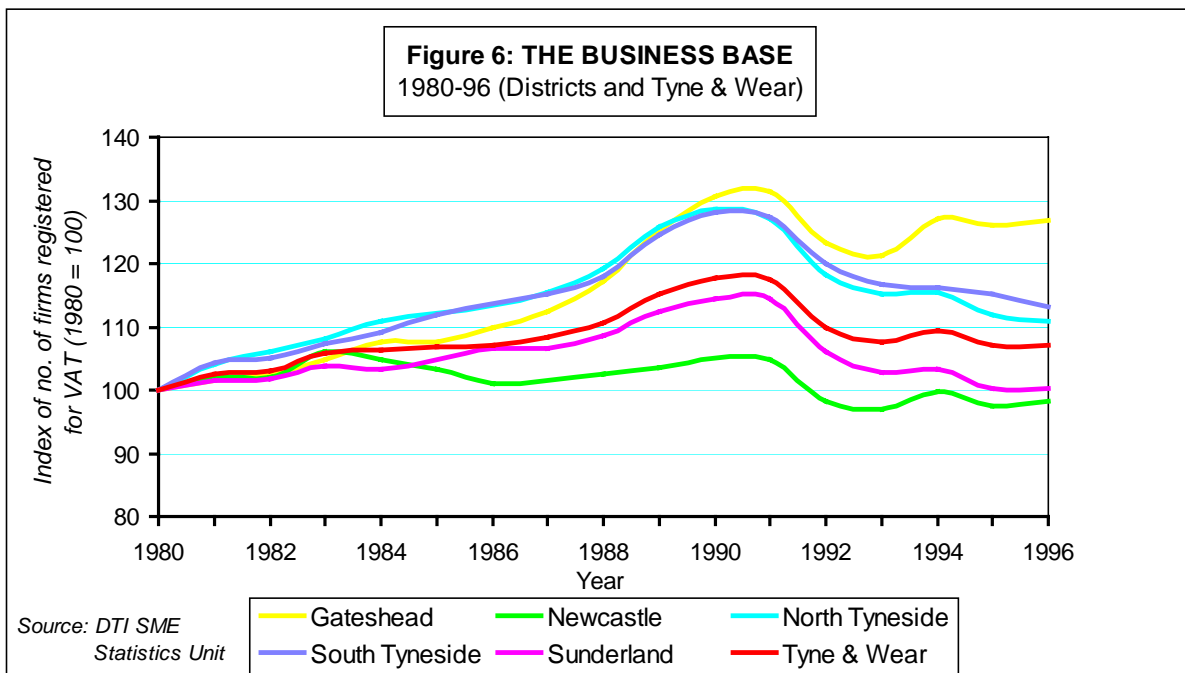
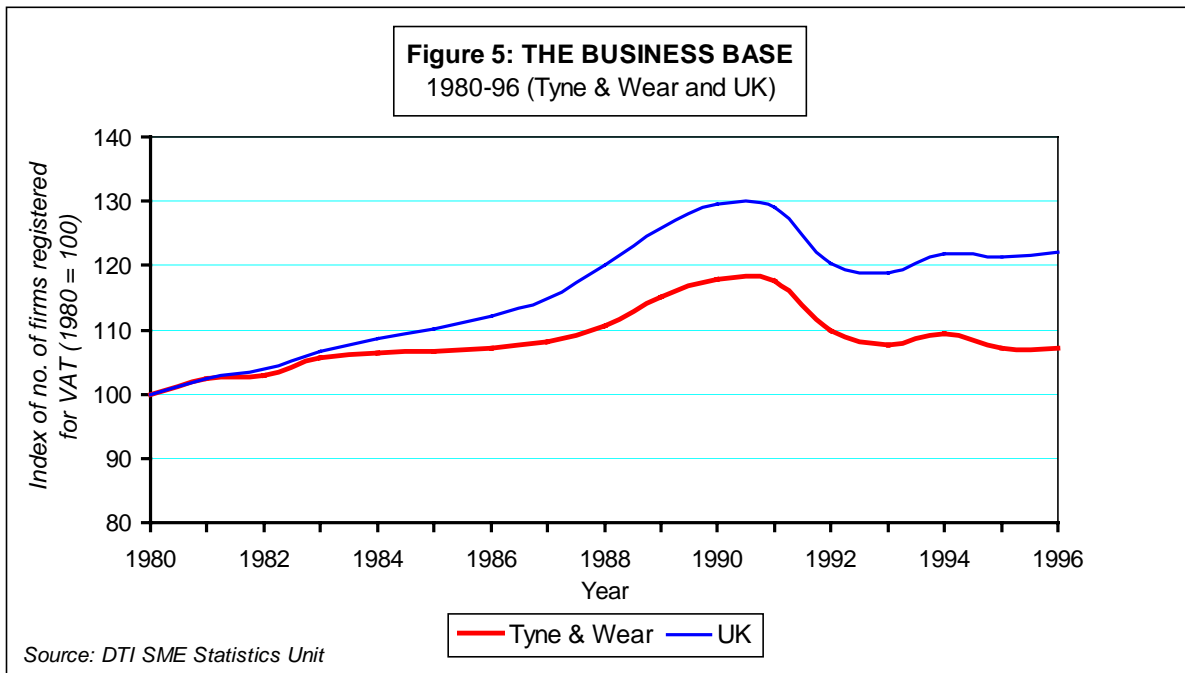
Note: Operating profits are not directly measured by the Census of Production. TWRI estimates them by subtracting an estimate of total labour costs from gross value-added. Details in TWRI reports on Manufacturing.

2.5 THE BUSINESS BASE (FIRMS REGISTERED FOR VAT)

Relative to the UK, the **performance of the business base has been better in the 1990s** than the 1980s. In absolute terms, the business base has declined in the 1990s whereas it grew in the 1980s. The point is that, compared with the UK, the **under-performance has halved**. From 1980 to 1991 (the peak year for business numbers), Tyne & Wear business numbers rose by about 17% whereas in the UK they rose by about 31%. This is an under-performance of 14% or over 1 percentage point p.a.. In the 1990s both have declined, the UK by about 6% and Tyne & Wear by about 9%. (from end 1990 to end 1996). Thus the rate of under-performance has halved to about 0.5% p.a. (Fig. 5). This improvement was later than improvements in the other business indicators, suggesting that it may have been dependent on the more fundamental improvements. Indeed, the conditions which favour growth of small firms (notably rising housing wealth) appear to be different from those which favour growth of large firms.

Retailing's over-representation in Tyne & Wear (compared with the UK) **accounts for up to a fifth of the overall under-performance** in the 1980s. Tyne & Wear has a relatively large proportion of its businesses in retailing & wholesale (32% in 1996; compared with 25% in UK) and business numbers are on a downward trend in these industries. In 1980, 31% of businesses were in retailing, ten percentage points above the UK average. Just by declining in line with the UK retailing average (-4.5% to 1991), compared with growth of about +20% in the other industries, they contributed about -3% to the overall -14% point under-performance (relative to the UK, 1980-91).

Analysis of the VAT series in the 1980s revealed that the three key positive **factors for growth** of the business base were: population growth, housing wealth and a favourable occupational structure (Source: Keeble & Walker, *Regional Studies*, July 1994). Tyne & Wear's position on the first two of these variables was, unusually, positive between 1989 and 1993. These two factors under-pinned the reduced under-performance of Tyne & Wear's business base (relative to the UK) in the 1990s. An unfavourable occupational structure, however, continues to exert its negative influence. Since about 1994, however, the negative effects of population decline and house price rises below the UK average will have added to the negative influence of the unfavourable occupational structure.



The **Districts** have performed sharply differently: the business base has stagnated in the cities but the other Districts have had some gains (Fig.6). In Newcastle and, perhaps surprisingly, Sunderland business numbers are back where they were in 1980. In North Tyneside and South Tyneside about half the approximately 25% growth has been lost. Only in Gateshead has the growth of the business base of about a quarter been broadly sustained. This will be partly due to the growth of out-of-town retailing in Gateshead.

Note: The **data source** is the VAT register. The figures are affected by the 1991 and 1993 rises in the VAT threshold. Since 1993 the data are from the IDBR (Inter-Departmental Business Register) which combines data from the PAYE system with the VAT register.

2.6 DEMAND INDICATORS

Tyne & Wear's out-performance of the UK economy in 1991-92 is a robust conclusion. Comparable data from the Chambers of Commerce on **business conditions** in Tyne & Wear and the UK **confirm that the local economy held up much more strongly in 1991-2**, through the UK recession. The contrast in performance was especially strong in UK in 1991 (Fig. 7 and 8). In 1991, the average "balance" in manufacturing was stronger than in the UK by a massive 23% (and 26% in services). The business conditions data thus corroborate the very positive GDP figures, which in turn contribute to the halving of the unemployment differential and "explain" the marked positive swing in migration in the four years to 1993.

Moreover, the **out-performance was a widely-based phenomenon**, not just one or two companies. The Tyne & Wear data come from 200 or more firms, about 50 in manufacturing. Since 1990, each quarter, *Business Survey North* (BSN) has measured the business conditions facing Tyne & Wear companies. This survey, for the Chambers of Commerce, is part of the national Quarterly Economic Conditions Survey by the British Chamber of Commerce. Most indicators are measured in terms of the "balance", that is the proportion of firms reporting an indicator has risen minus the proportion reporting it has fallen. UK sales and export sales are the two key demand indicators. BSN shows that domestic demand was hit in 1991-92, at the time of the UK recession, but nothing like as severely as in the UK. Tyne & Wear manufacturing's 1991 and 1992 balances on UK sales were +2% and +11%, that is massively (23 and 19 percentage points) more positive than the UK's -22% and -8%. In 1991-93, Tyne & Wear's export sales, too, were much more positive than for the UK, the average quarterly balances being respectively 15, 4 and 9 percentage points more positive than for the UK.

From **1993-97**, Tyne & Wear **manufacturing's UK sales** continued to be slightly **more positive than the UK's, but exports** were slightly **less positive** than for the UK. In these years, the average quarterly balance for domestic sales was 2 to 5 percentage points more positive than for the UK. This tends to corroborate manufacturing's out-performance, as shown by the Census of Production. The average quarterly balances on exports were between three percentage points less positive and one percentage point more positive than for the UK.

On the face of it, **capacity utilisation fell below that of the UK in 1995 and 1996** (Fig. 9). Measured by the proportion of manufacturing firms operating at 90% (or more) of full capacity, before 1995 capacity utilisation had been little different for Tyne & Wear and the UK. It is possible that, by 1995, heavy investment had created unused capacity. It is more likely that Tyne & Wear firms, in 1995 and 1996, were not fully sharing in the economic growth in the UK. This may, however, be the result of the pre-1995 data including some non-Tyne & Wear firms (see note).

Note: Strictly, the 1990-94 BSN data relate to the Tyne & Wear Chamber's respondents. They therefore include firms in Northumberland and some in Durham. From 1995 Economic Research Services has kindly supplied TWRI with BSN data relating to Tyne & Wear. There were around 400 respondents for the TW Chamber and about 200-250 for Tyne & Wear only. The numbers vary from quarter to quarter.

Figure 7: DOMESTIC SALES BY MANUFACTURING FIRMS
Tyne & Wear and UK 1990-97

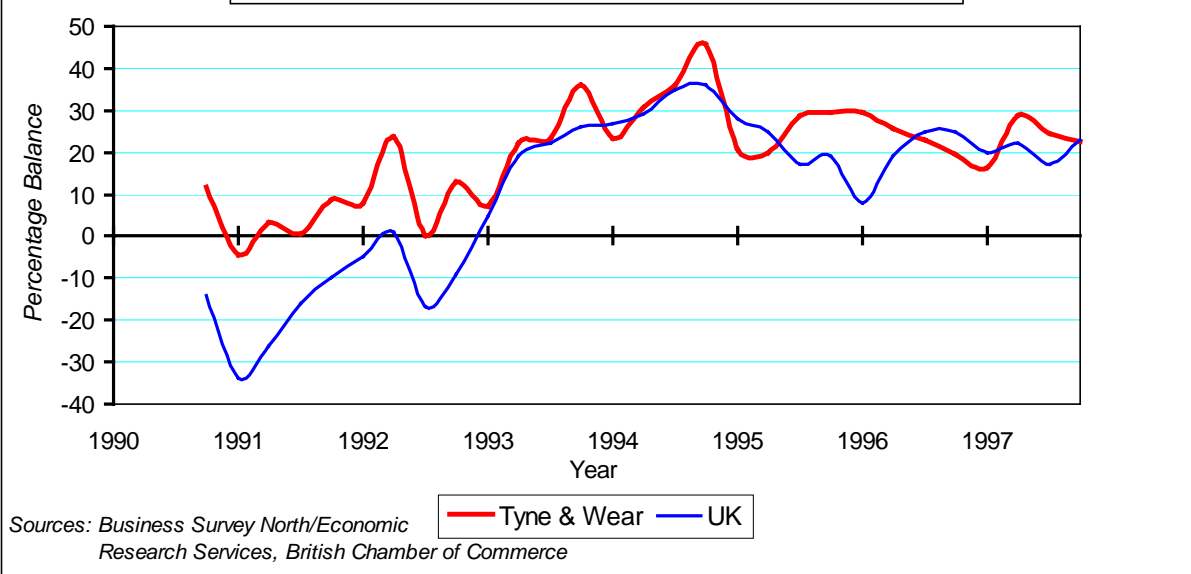
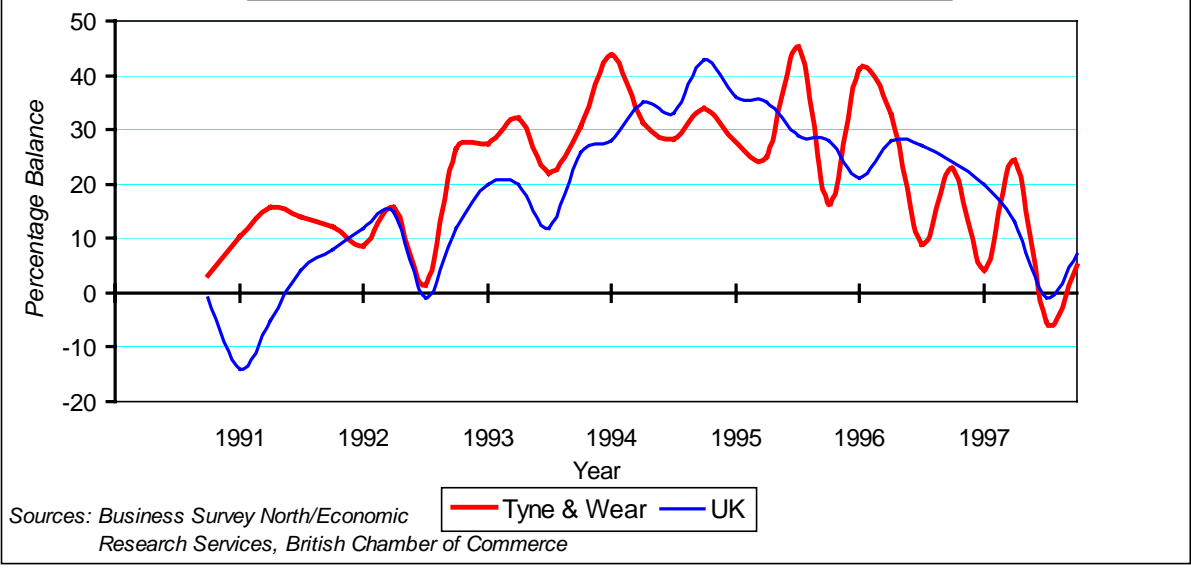
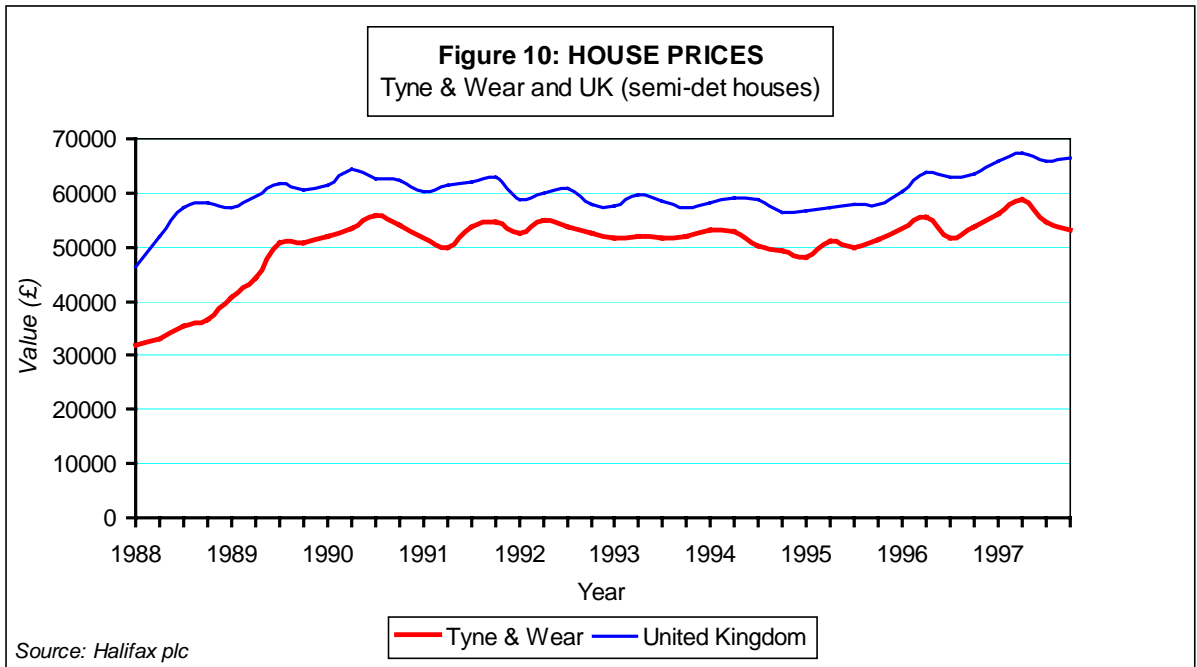
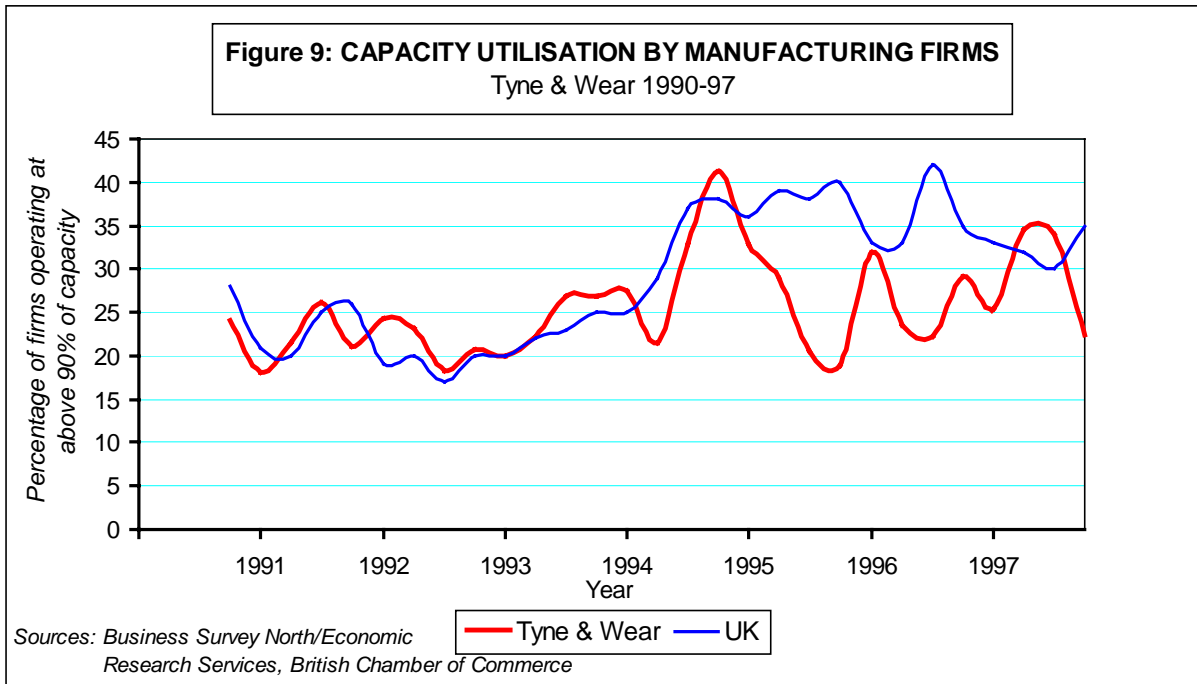


Figure 8: EXPORT SALES BY MANUFACTURING FIRMS
Tyne & Wear and UK 1990-97





2.7 HOUSE PRICES

The house price **gap narrowed** sharply in 1987-89 and has shown little change since (Fig. 10). The price of a Tyne & Wear semi-detached house rose by well over 50% in 18 months to late 1989, a far greater percentage rise than in the UK. The gap in house prices thus narrowed from over a third in 1987 to a sixth or less from late 1989 onwards. The gap has begun to widen again since 1996.

House prices reflect many factors but the rise and subsequent stabilisation of house prices is largely the **effect of monetary policy**. House prices are very sensitive to monetary conditions. In the late 1980s, monetary conditions were very loose (interest rates were low) and house prices rose very sharply. This occurred slightly later in Tyne & Wear than in the UK. It is characteristic of house price booms that they spread out from the south-east over two or three years.

A secondary, probably much weaker, cause may have been the **stabilisation of employment** in Tyne & Wear. Plunging employment was a major depressant on local house prices for most of the 1980s (relative to the UK). The stabilisation of employment in Tyne & Wear in 1986-87 may have stimulated house prices locally. House prices can rise in a locality due to special local conditions. (A dramatic example elsewhere is of the rise in house prices in Grampian, near Aberdeen, due to the North Sea oil boom).

Higher house prices stimulated the local economy in two ways: a “**wealth effect**” boosting the wealth of consumers and encouraging them to spend more. Secondly, housing wealth has been found to be one of three key factors behind **small firm formation** (*Keeble & Walker, 1994*). It is the primary source of collateral to put into a small business. Although this is stretching the (VAT) data to its limits, it is intriguing that after Tyne & Wear’s house prices rose sharply relative to the UK (up to 1989), the performance of its business base improved dramatically.

3. UNEMPLOYMENT INDICATORS

3.1 CLAIMANT UNEMPLOYMENT

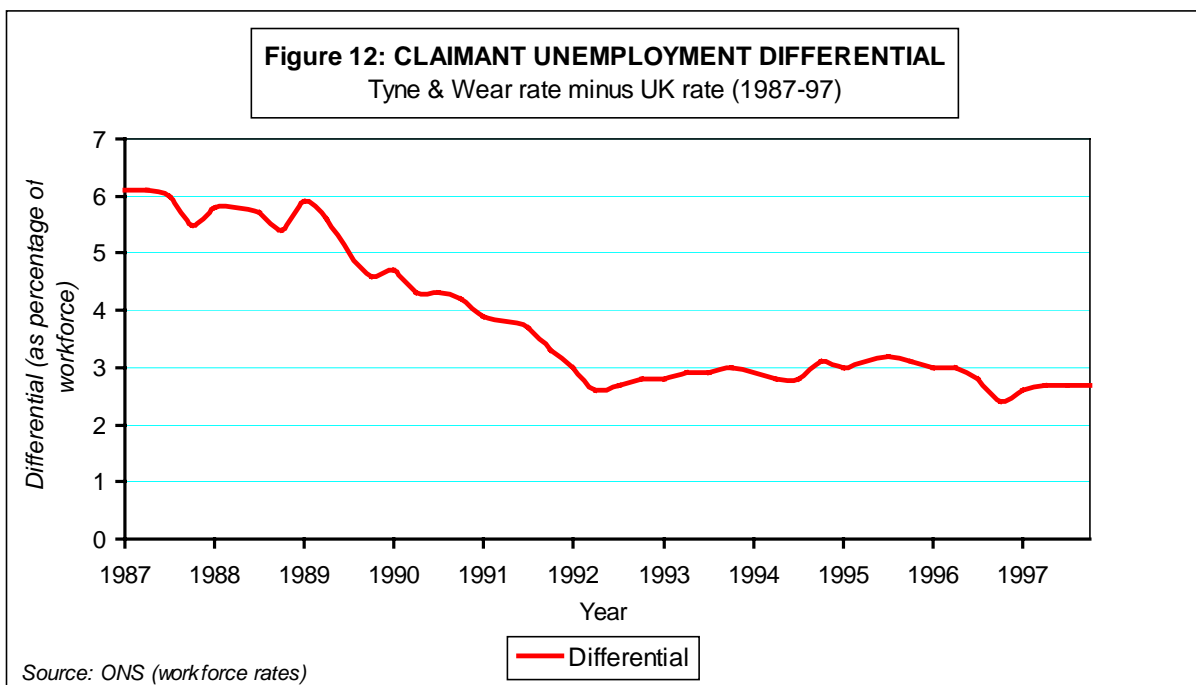
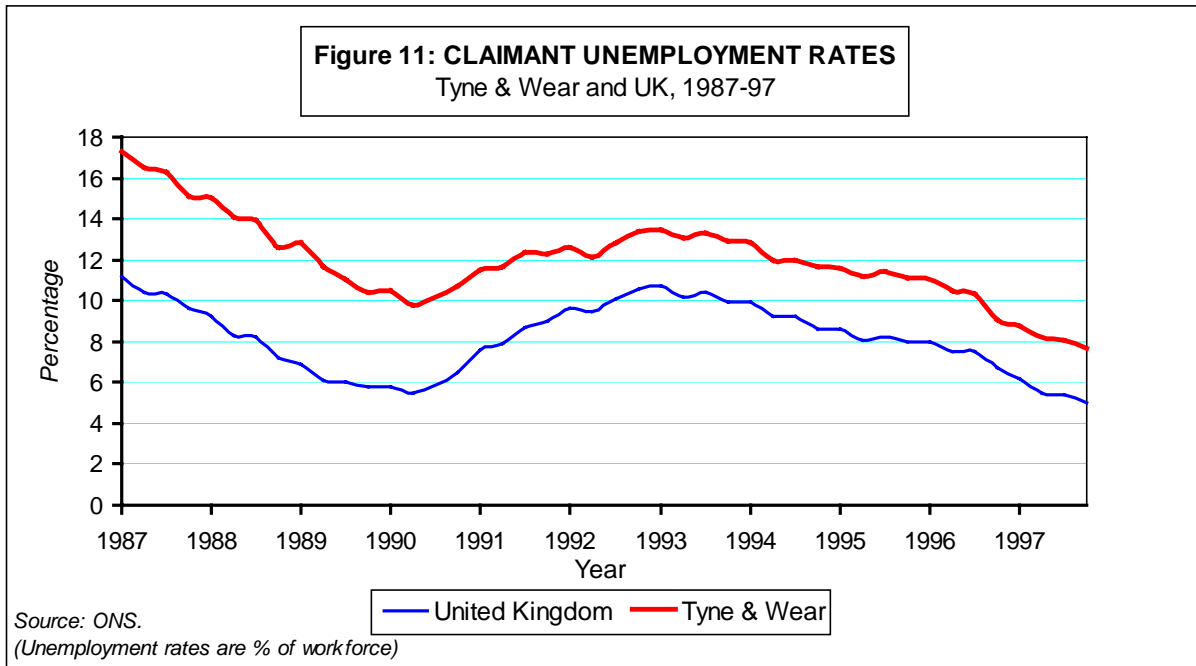
Claimant unemployment has **fallen by almost two-thirds** since 1986. The numbers in Tyne & Wear have dropped from **over 100,000 in 1986** to about 40,000 at the end of 1997. The claimant unemployment rate has fallen from over 17% in 1987 to about 8% in late 1997 (Fig. 11).

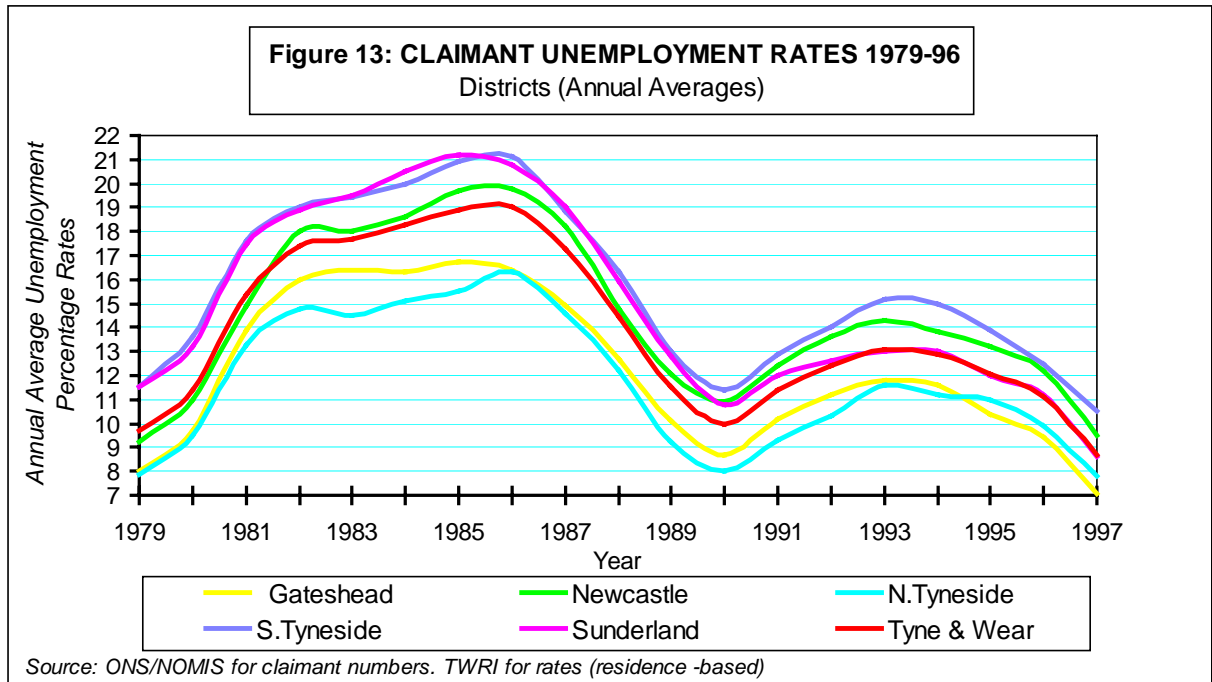
As is well known, however, claimant unemployment is a **seriously distorted measure**. Its coverage has changed sharply since the 1980s. Two big changes in coverage took place in October of both **1988 and 1996**. In 1988 young people, aged under 18, were excluded from eligibility for benefit and excluded from the count. In 1996, the replacement of Unemployment Benefit by contributory-JSA (JobSeekers' Allowance) reduced the numbers of people eligible. Benefit is now means-tested after six months instead of a year. Both these reductions in eligibility were followed by particularly sharp falls in unemployment. The first was associated with a fall locally of about 5,000 (or a cut of about one percentage point in the unemployment rate). The effect of JSA has been estimated nationally at 100-200,000 (*ONS's Labour Market Trends*, April 1998) which would be consistent with a drop in Tyne & Wear of up to about 5,000 in 1996/97.

The Tyne & Wear/UK **differential in claimant unemployment rates has halved** from about six percentage points up to 1989 to around three percentage points from 1992 onwards (Fig. 12). This coincided with the UK recession through which Tyne & Wear's economy grew (according to the GDP figures). Thus the unemployment and GDP figures both confirm that Tyne & Wear out-performed the UK in this period. Tyne & Wear's out-performance in terms of GDP was, however, over twice as great (7 percentage points) as that in terms of unemployment (3 percentage points). This implies either a step rise in employment or in productivity. As shown above, there is evidence of a big rise in productivity, at least for manufacturing, in the Census of Production data. There is no evidence of a rise in employment.

Very broadly, districts **south of the Tyne** have improved their relative position on claimant unemployment, whereas those to the north have deteriorated (Fig. 13). Sunderland's improvement is most marked, from worst position in 1985 to average (in Tyne & Wear) in 1996. The relative improvement occurred between 1989 and 1992. Gateshead also improved its ranking to the best in 1995 and 1996, pulling ahead of North Tyneside. Gateshead's greatest improvement was from 1983 to 1986 - possibly helped by developments on the Team Valley and with the MetroCentre (opened in 1986). South Tyneside, unlike the other two Districts south of the Tyne has not improved its relative position. Its unemployment rate has been the highest in Tyne & Wear since 1987. Indeed, it was virtually identical to Sunderland until 1989. Since then, Sunderland has moved ahead. In the 1990s, Sunderland's unemployment rate has been 1-2 percentage points lower than South Tyneside's. Sunderland's marked relative improvement in unemployment may be connected, at least in part, to the renaissance of manufacturing (reported earlier). Sunderland has the highest proportion of its employees in manufacturing of any District (27% in 1995, Annual Employment Survey).

Newcastle has deteriorated from below the Tyne & Wear average unemployment rate in 1979-81 to second only to South Tyneside since 1990. Since 1992 it has been a percentage point or so above the Tyne & Wear average. This may be because there has been more new development in other districts since 1990. Newcastle also has an overwhelmingly service-sector economy. In 1991, 75% of employed residents worked in services, compared with 68% in Tyne & Wear. It would have been hit more than other districts by the UK recession of 1990-92 which had an unusually large impact on the service sector.





North Tyneside deteriorated relatively after 1993. This was probably largely in reaction to the closure of the old Swan Hunter. The administrative receivership began in 1993 and the sale to an offshore engineering concern, THC, was eventually completed in 1995.

4. EMPLOYMENT AND INCOME INDICATORS

In general, the employment and income indicators are negative, compared with the national, unlike the business-indicators and unemployment indicators reported above. Eight labour market and income indicators are analysed here: employment, redundancies, earnings, economic inactivity, Income Support, Incapacity Benefit, Household Disposable Income and Consumers' Expenditure.

This evidence is consistent with the view that the *business* performance of the local economy has improved sharply, relative to the UK, but *incomes* of residents have - at best - stabilised or continued to decline. The evidence in the following sub-sections does point to the conclusion that the incomes of residents have not fully shared in the improved business performance of the local economy. The labour market position has deteriorated, particularly for men - not just from an historic perspective but compared to national (GB) trends as well .

4.1 EMPLOYMENT

Comparing the period since 1987 with the decade before, employment has **improved dramatically in an historic perspective** and been broadly flat as in GB. Between 1978-87 employment fell by over 80,000 or 16%, a rate of decline of about 9,000 per annum or nearly 2% pa. Between 1978-87, employment fell four times as rapidly as in GB, or about 12 percentage points more than in GB (-16%, GB -4%).

Between 1987 and 1993 employment held up (marginally) better in Tyne & Wear than in GB.

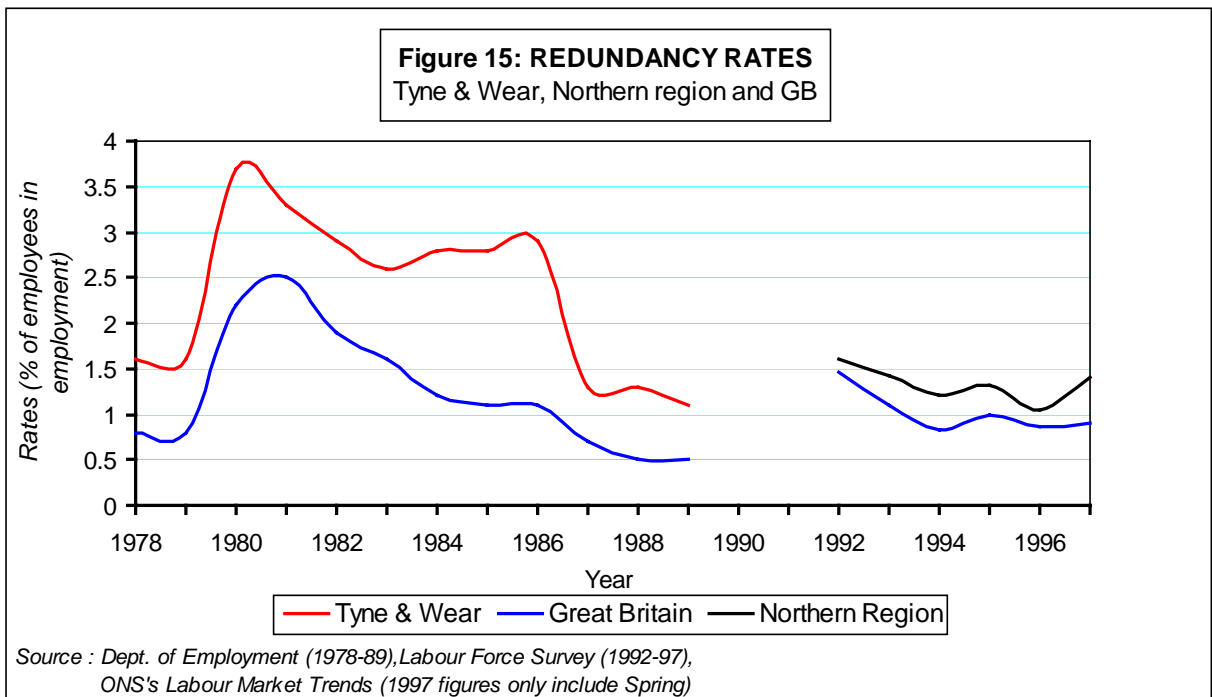
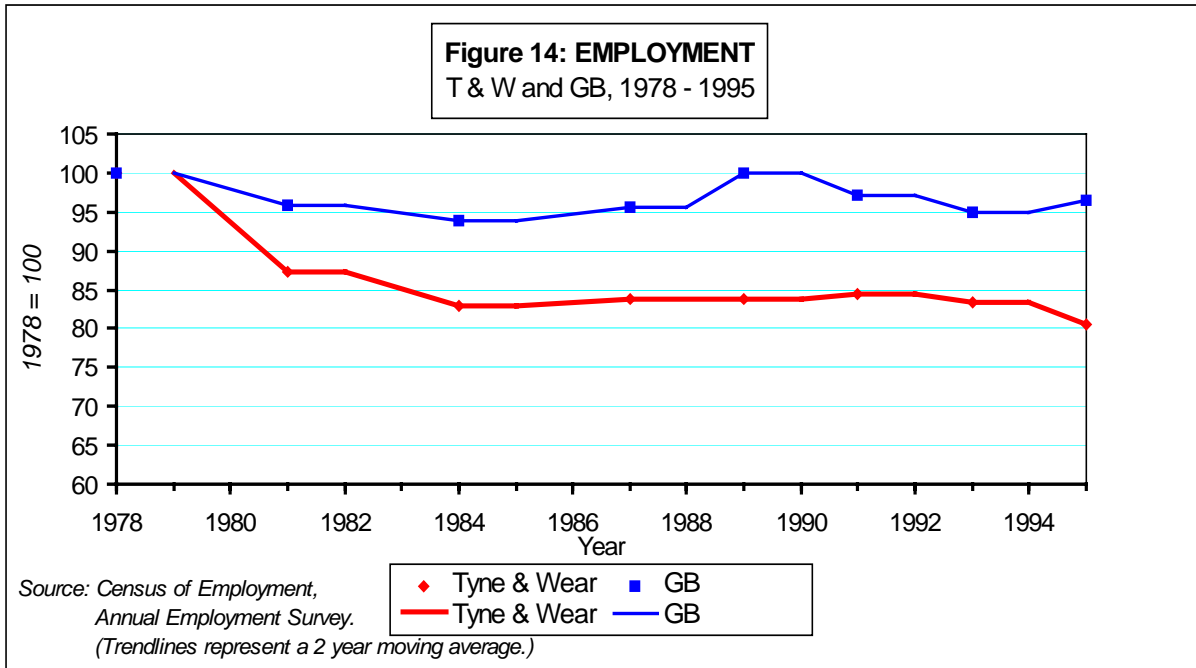
Excluding AES95, employment has been **broadly stable since 1987**, at around 420,000 (plus or minus 10,000 or so). (Source: Census of Employment/NOMIS). During this period, Tyne & Wear's period of marked relative economic improvement, employment was essentially stable, as in GB (down just 0.5%; GB down 0.8%). If the Annual Employment Survey 1995 (AES 95) could be judged reliable, however, the conclusion would be that employment has fallen relative to GB since 1987. There are good reasons to regard the AES95 as unreliably low (see note below). The provisional AES96 is much higher.

Note: In the judgement of TWRI, the results of the Annual Employment Survey 1995 (AES95) are suspiciously low. On the face of it employment fell by about 14,000 or 3% to 406,000 in the two years 1993-95. There is no corroboration of this in the press reports of the time or in the unemployment figures, although net out-migration increased markedly. The 1995 survey was the first AES. It did not attempt to be comprehensive like the 1993 Census of Employment, and relies on a high degree of grossing. TWRI believes there was, however, substantial employment decline in North Tyneside in this period. The provisional AES96 is much higher, at around 419,000. ONS has now revised upwards both the AES95 and provisional 96 estimates to take account of "VAT-only" workplaces.

4.2 REDUNDANCIES

There is evidence that redundancies have been **particularly heavy in Tyne & Wear**. The data corroborate the very steep decline in employment in the 1980s, at least up to 1987. In the period 1978-86 there were no fewer than **108,500 redundancies** in Tyne & Wear. From 1980 to 1986 there were over 10,000 redundancies every year. In the most depressed years, 1980 and 1981, there were 17,200 redundancies and 14,800 redundancies. This compares with redundancies of 7,000 or 8,000 annually in the late 1970s, which may have been consistent with stable employment. Crudely, in 1978-86, there may therefore have been about 45,000 more redundancies than were compatible with stable employment.

In the 1980s, **redundancy rates** were much higher than the Great Britain average. (The redundancy rate is the proportion of employees who are made redundant in a given year). Between 1978 and 1986, Tyne & Wear's redundancy rate averaged 2.7% pa, which was close to twice the GB average of 1.5%.



This difference of 1.2% is equivalent to an extra 6,000 or so redundancies annually in Tyne & Wear. The coverage of the redundancy scheme was changed in 1986 and redundancies roughly halved from 1987 onwards both in Tyne & Wear and GB.

Table 1: Confirmed Redundancies in Tyne & Wear by Sector, 1978-1989

Year	Primary		Manufacturing		Services		Total No.
	No.	%	No.	%	No.	%	
1978	60	0.7	6,781	83.2	1,312	16.1	8,153
1979	440	5.5	6,184	77.9	1,312	16.5	7,936
1980	567	3.3	13,610	79.2	3,015	17.5	17,192
1981	599	4.0	10,850	73.2	3,365	22.7	14,814
1982	1,417	11.2	8,977	71.0	2,256	17.8	12,650
1983	303	2.7	8,941	79.8	1,957	17.5	11,201
1984	279	2.4	8,372	71.6	3,044	26.0	11,695
1985	1,238	10.5	7,393	62.4	3,210	27.1	11,841
1986	1,143	9.3	6,864	55.7	4,324	35.1	12,331
1987	467	8.2	3,865	68.2	1,337	23.6	5,669
1988	682	12.0	3,386	59.6	1,613	28.4	5,681
1989	371	7.5	3,329	67.7	1,217	24.8	4,917

Source: Department of Employment, Tyne & Wear Research and Information

Note: Unfortunately the redundancies series was discontinued after 1989. The data-set was drawn from the state Redundancy Scheme. It gave data by District, for all redundancies over a low threshold (10). Comparisons with Great Britain were thus affected to some extent by the size structure of local employers. Local employers tend to be much bigger than the GB average, and thus, very probably, a higher proportion of redundancies in Tyne & Wear would have been covered by the scheme than nationally.

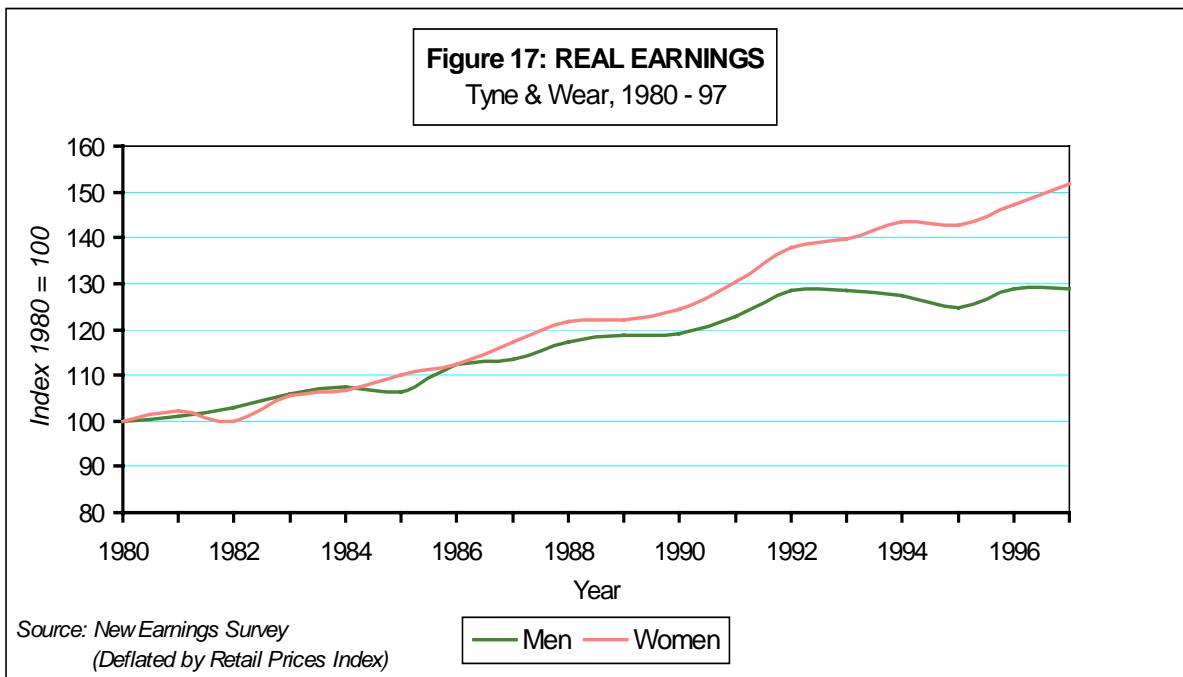
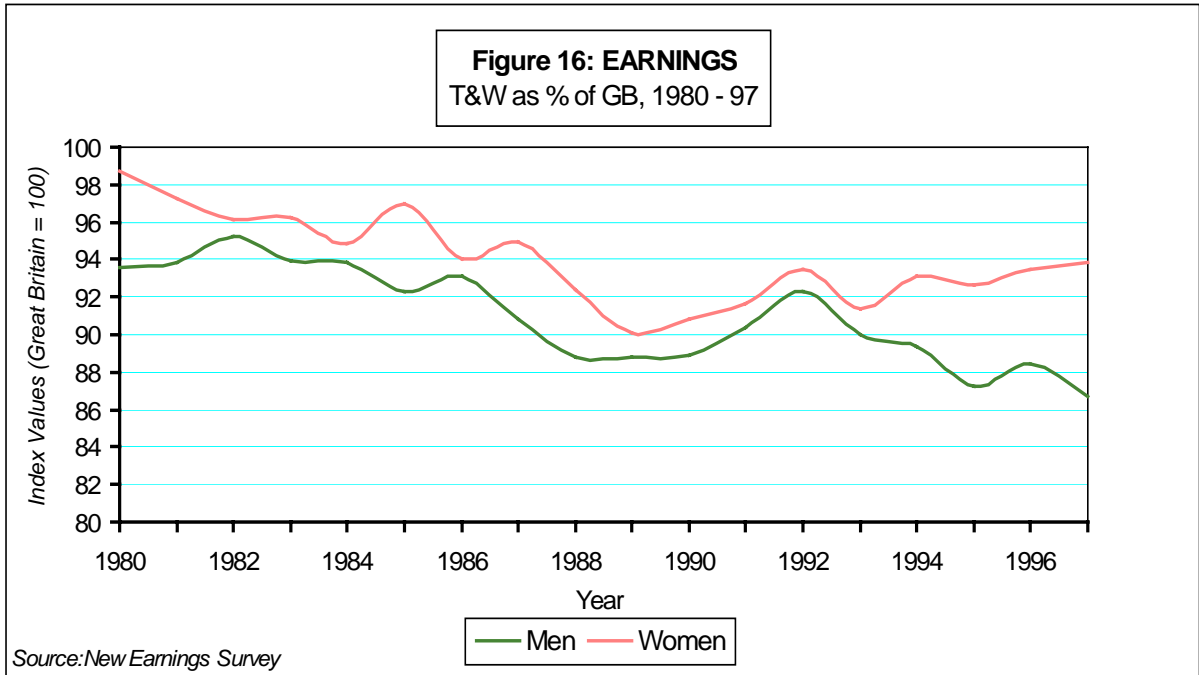
For the Northern Region, redundancy rates have been about one fifth higher than GB for almost all the last five years. These recent data on redundancies (since 1992) are only published for regions. These are survey-based, from the Labour Force Survey (LFS).

4.3 EARNINGS

A big **turning point** occurred for earnings in **1988/89**. Before that date, earnings had been falling very sharply relative to GB. Between 1980 and 1988 men's earnings fell about 5% behind GB, compared with a corresponding fall for women of about 8% (Figure 16). These are very severe declines in just a few years.

Since 1988/89 men's and women's earnings have moved in **contrasting directions**: men's broadly flat, whilst women's have risen. Since 1989, relative to GB, earnings in Tyne & Wear have risen for women. Since 1988, however, men's earnings have fallen. For both men and women, earnings rose relative to GB from 1988/89 up to 1992. This was the period when economic growth significantly outstripped the UK. Tyne & Wear grew through the national recession of 1990-92.

Since 1992, however, men's and women's earnings have clearly moved in opposite directions. Relative to GB, men's earnings have fallen about 3% while women's earnings have held their gains of 1989-92.



The source for earnings data is the **New Earnings Survey**. This uses a 1% sample of people on PAYE. It covers full-time earnings only. Therefore the quarter of employees who are part-time are excluded. The data are for gross earnings including overtime, bonuses, etc.. Some of the fluctuation in the estimates is due to sampling error. For example, the standard errors of the 1997 results in Tyne & Wear were 1.4% for men and 1.7% for women (GB 0.3% for both groups).

In **real terms**, since 1987, men's and women's earnings have **sharply different trends** (Figure 17). This is in contrast to the period 1980 to 1987 when they shared similar trends. After 1987, women's

real earnings have risen nearly twice as fast as men's. Women's earnings were up about 25% in real terms by 1996, whereas men's were up about 14%. Moreover, men's real earnings have failed to rise since 1992, whereas women's have continued to rise. Nevertheless, TW women's earnings are still about 23% lower than men's, but the gap is narrowing at a trend rate of 1% or so per annum (based on 1980-96).

The weakness of earnings has **profound implications**. Earnings are, of course, the principal source of income for the local economy. Despite the improved business performance of the local economy since 1987, earnings for men - at least - have languished. This profoundly affects other economic variables such as consumer spending, employment and even house prices and thence the business base.

Up to 1987, the decline in relative earnings **re-inforced the downward spiral** of employment decline. Not only did employment fall by about 16% but, relative to GB, earnings of those still in work fell by 5-8%. This profoundly depressed local spending power. It also depressed local house prices and thus housing wealth. On the other hand, declining relative earnings will have improved the cost-competitiveness of remaining employers, relative to GB. Declining relative earnings probably, on balance, depressed the service sector but moderated the decline in manufacturing. By the late 1980s, Tyne & Wear had become a relatively low labour-cost location. This is part of its appeal for manufacturing investors. It is one of the foundations of the manufacturing renaissance seen since 1987.

Since 1987, relative to GB, earnings have **improved somewhat**; rising for women and broadly stabilising for men. This potentially creates a "virtuous circle" for the local economy of rising local spending power, housing wealth, business formations and employment. There are some signs of this in the data. Moreover this improvement in earnings is under-pinned by the sharp rises in productivity (at least in manufacturing).

Pay is also a **business cost**. The partial reversal, since 1987, of the big relative decline in earnings will have **tempered the benefits for employment**. As labour costs have risen relative to GB some of the low-cost attraction of the area as a business location will have been lost. The effect on manufacturing, however, has probably been about zero as this sector overwhelmingly employs men and their earnings have stagnated. Rising women's earnings (and thus labour costs) may have tempered the attractiveness of the area as a service sector location, e.g. in office-based services. These are just some of the effects on the complex phenomenon of **competitiveness**. Tyne & Wear has other non-wage competitive advantages relative to GB locations in terms of a large pool of available labour, low staff turnover, proximity to Europe, telecoms, good roads, financial and other assistance etc..

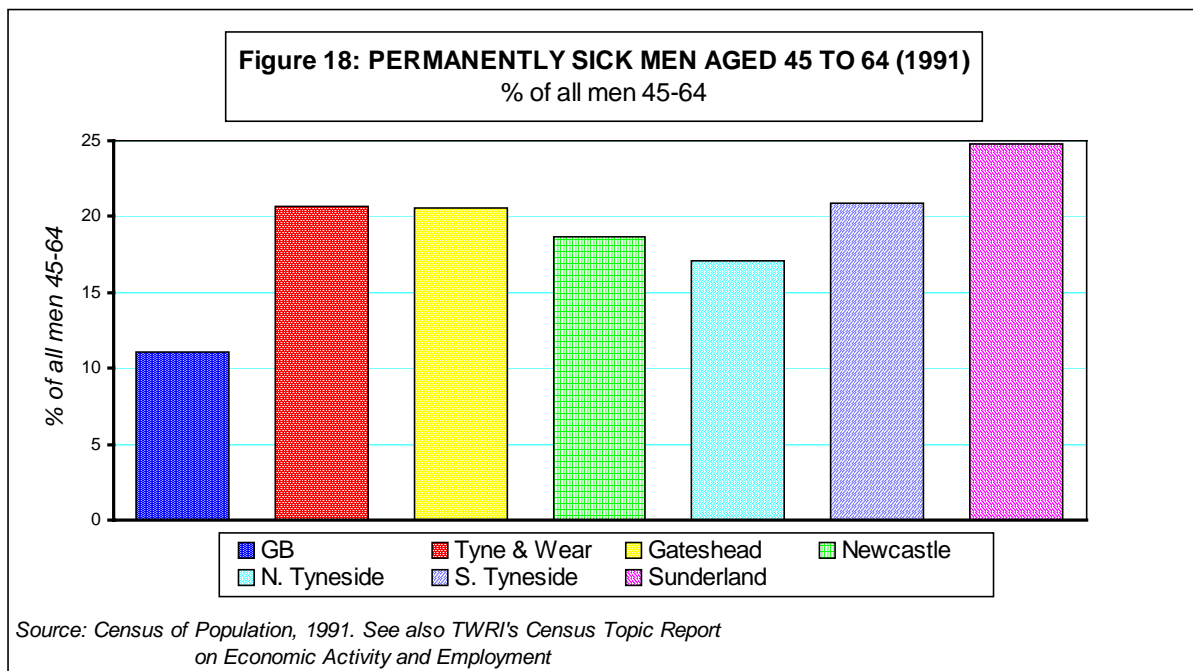
Personal income in Tyne & Wear is more dependent on benefits than is the UK. This is true of the Northern Region (source: ONS's *Economic Trends*). Personal income data are not available below regional level, but other data make it clear that Tyne & Wear is more dependent on income from benefits than is the UK. These other data include the proportion of the population on Income Support and the relatively elderly age structure. [Personal income is the income of the "personal sector". This includes small firms which are not companies]. See Household Disposable Income (HDI), below, for a more appropriate and local measure.

4.4 ECONOMIC INACTIVITY

Perhaps the **most dramatic trend** of the last decade and a half is the **rapid rise** in the proportion (and number) of **economically inactive men**. These have risen by about 60% since 1981 (source: *Census of Population and Newcastle inter-censal survey* p12 T2.6b). Inactive people are neither in work nor unemployed. They are not in the labour market at all. Men over the age of 55, especially, have left the labour market. They have effectively retired early or describe themselves as “permanently sick”. Very high economic inactivity is a sign of **profound and long-term labour market disadvantage**. It also masks the real job shortage from the unemployment figures.

In effect, there is huge “**hidden unemployment**”. TWRI estimated the number of “**jobless**”^{*} people in 1996 at about 105,000 or **twice the claimant count** in Tyne & Wear. (* The definition of jobless used is “Broad LFS” which includes people who are available for work but have not looked. TWRI unpublished, 1997).

In 1991, at the last Census of Population, in Tyne & Wear **over a fifth of all men aged 45-64** described themselves as “**permanently sick**”. This was practically twice as high as in GB (Fig. 18). Moreover permanent sickness has grown sharply since 1991, up by a third in the five years 1991-96 according to Newcastle City Council’s inter-censal survey. Newcastle Research found that men describing themselves as permanently sick rose by 140% to 8,900 in the fifteen years to 1996. Male permanent sickness rose 23% between 1991 and 1996. (The other Districts held no inter-censal surveys).



In effect, in the decade 1986-96, there has been a **massive movement from unemployment to economic inactivity**. Claimant unemployment in Tyne & Wear has halved, falling about 50,000, whilst inactivity amongst males (alone) has risen by about 30,000 (TWRI estimate). Thus the improvement in the claimant unemployment figures should not be taken at face value.

Rising male economic inactivity is probably the most important **reason for the decline in claimant unemployment** since 1993. A key piece of work on hidden unemployment nationally (*The Real Level of Unemployment*, Fothergill et al, Sheffield Hallam University, 1997) estimates the “real level of unemployment” at about twice that of the official claimant figures. The largest group of hidden unemployed people, according to this analysis, is people who are permanently sick. They are claiming Invalidity Benefit (now Incapacity Benefit) instead of unemployment-related benefits. One advantage in doing this is that a long-term claimant thereby escapes means-testing.

4.5 INCOME SUPPORT

Whilst the unemployment figures have fallen, **Income Support numbers have risen, although at a slower rate than in GB** (Figure 19). Income Support is the principal benefit paid to people in poverty. It replaced Supplementary Benefit (SB) in 1988 and is means-tested. Income Support (IS) claimants cases* have risen somewhat, **by about 12%** over the seven years to 1995. This is much slower than the rise in GB of 30%.

In Tyne & Wear IS claimant numbers have been between 130,000 and 152,000. The numbers dipped in 1990 (to about 130,000) reflecting the peak of the economic boom at the end of the 1980s, and low unemployment. They reached 152,000 in early 1993 and have remained at around that level. By 1995, IS claimant cases represented about 13.5%* of the total population.

* Note: Claimant “cases” can be individuals or households. Thus the percentage of the population is an understatement .

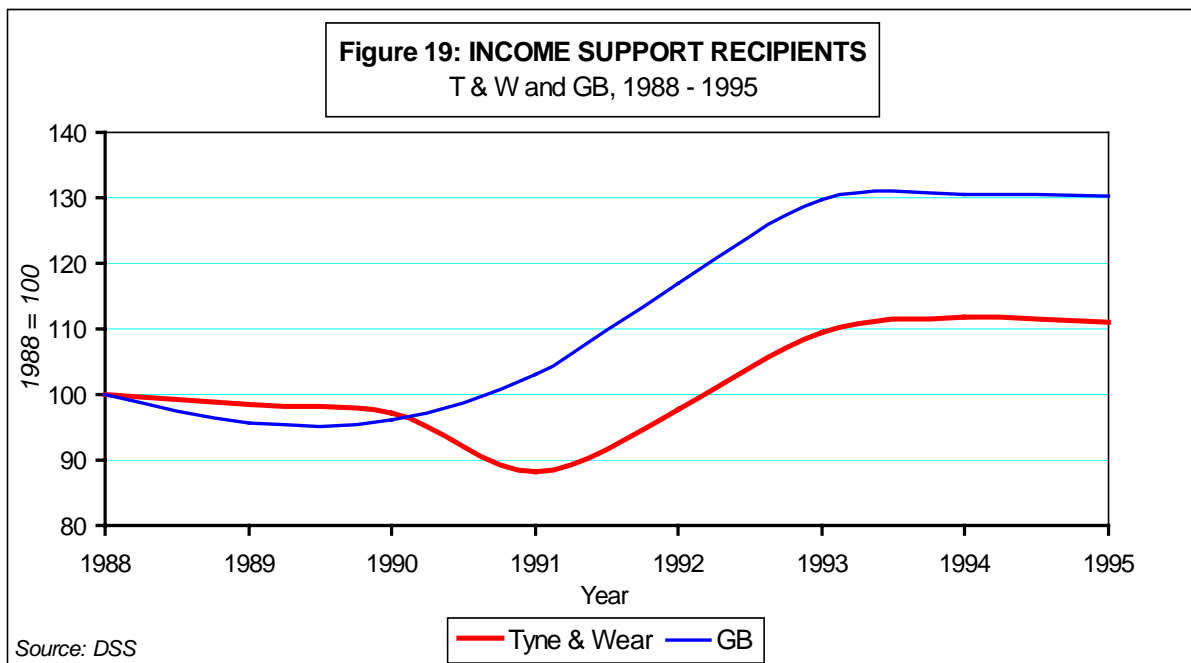


Table 2: All Income Support claimants in Tyne & Wear districts , May 1995.

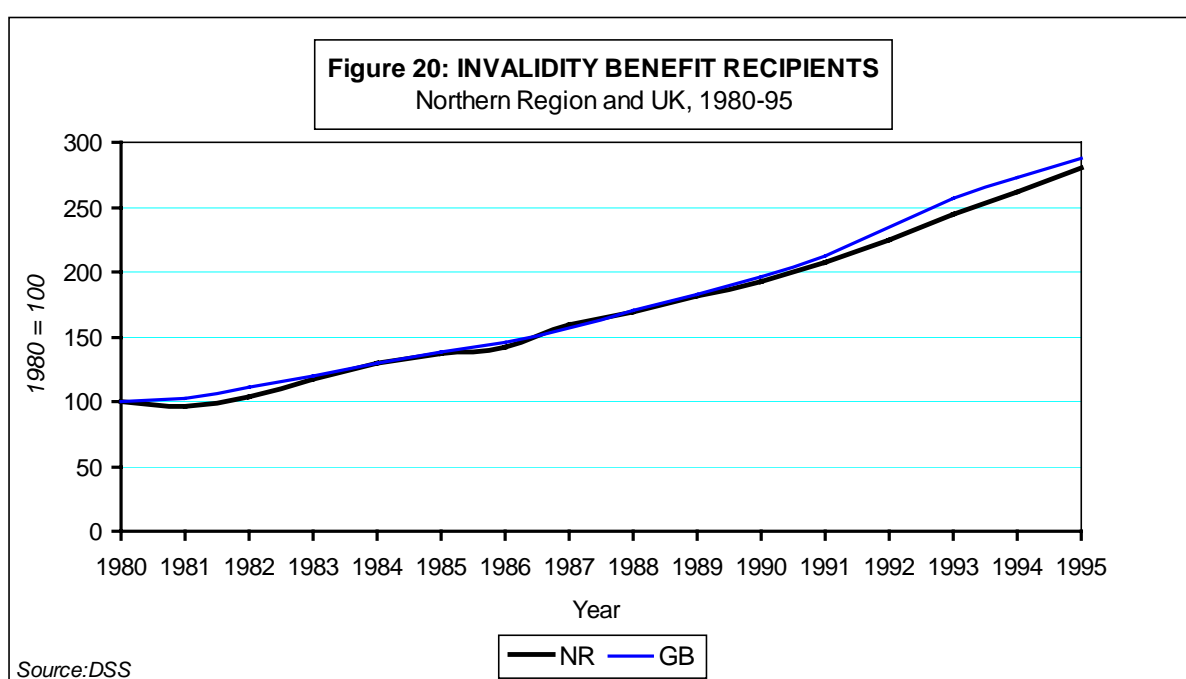
Gateshead	27,000
Newcastle	40,000
North Tyneside	24,000
South Tyneside	22,000
Sunderland	39,000
Tyne & Wear	152,000

Source: *Income Support Statistics Quarterly Enquiries 1988-1995*. (Based on a 1% sample up to Aug. 1992 and 5% thereafter).

4.6 INCAPACITY BENEFIT

The numbers of people on **Incapacity Benefit (IB)** are very substantial. There are about the same number of people (of working age) on Incapacity Benefit as are claimant unemployed, **51,500 in August 1996**. The “numbers claiming various forms of sickness benefit are now truly astonishing” (Fothergill p11). The number of men and women of working age (16-retirement age) claiming benefits for sickness or invalidity for more than six months have trebled since 1981. “In April 1981 there were 574,000 men and women in this category. By April 1995 the figure had risen to 1,809,000” (Fothergill).

The numbers of men and women on **Invalidity Benefit roughly trebled 1981-95** in both Great Britain and the Northern Region (Fig. 20). In the North, the figures rose from 58,300 in 1981 to 170,600 (Recipients of working age. Source: DSS). IB was preceded, before 1995, by Invalidity Benefit and Sickness Benefit. Unfortunately, Tyne & Wear data are not available for earlier dates.



At District-level, the numbers of people of working age on Incapacity Benefit were much the **highest in Sunderland** at 15,900. This tallies with the 1991 data on male permanent sickness which was highest in Sunderland too. The District numbers are given in the table below.

Table 3: People of working age in receipt of Incapacity Benefit, August 1996

District	Men	Women	Total
Gateshead	7,590	2,900	10,490
Newcastle	7,800	2,650	10,450
North Tyneside	5,770	1,990	7,750
South Tyneside	5,160	1,740	6,900
Sunderland	11,470	4,420	15,880
Tyne & Wear	37,780	13,690	51,470

Source: DSS (special request). From a 5% sample

Tyne & Wear has a high proportion of GB's ICB claimants, 3.4% compared to about 2% of GB's population.

4.7 HOUSEHOLD DISPOSABLE INCOME

Since 1987, Household Disposable Income (HDI) in Tyne & Wear has **fallen relative to the UK** (Fig. 21). It was **down nearly four percentage points**, relative to the UK, over the seven years 1987-94. It rose sharply, however, during the national recession of 1990-92 This provides further corroboration of the strong performance of the Tyne & Wear economy in this period. It is noticeable how the course of this graph is similar to that of earnings.

In 1994, Tyne & Wear's HDI is estimated at £7,900m (Source: ONS's *Economic Trends*, June 1997 T8). Household Income was estimated at £9,300m. The difference, incidentally, is the implied payments of income tax, social security contributions, council tax and current transfers. In 1995, in the North East (Government Office Region) 55% of Household Income came from wages & salaries (£12,588m). (Table 4).

Table 4: Household Income, its composition and HDI, 1995

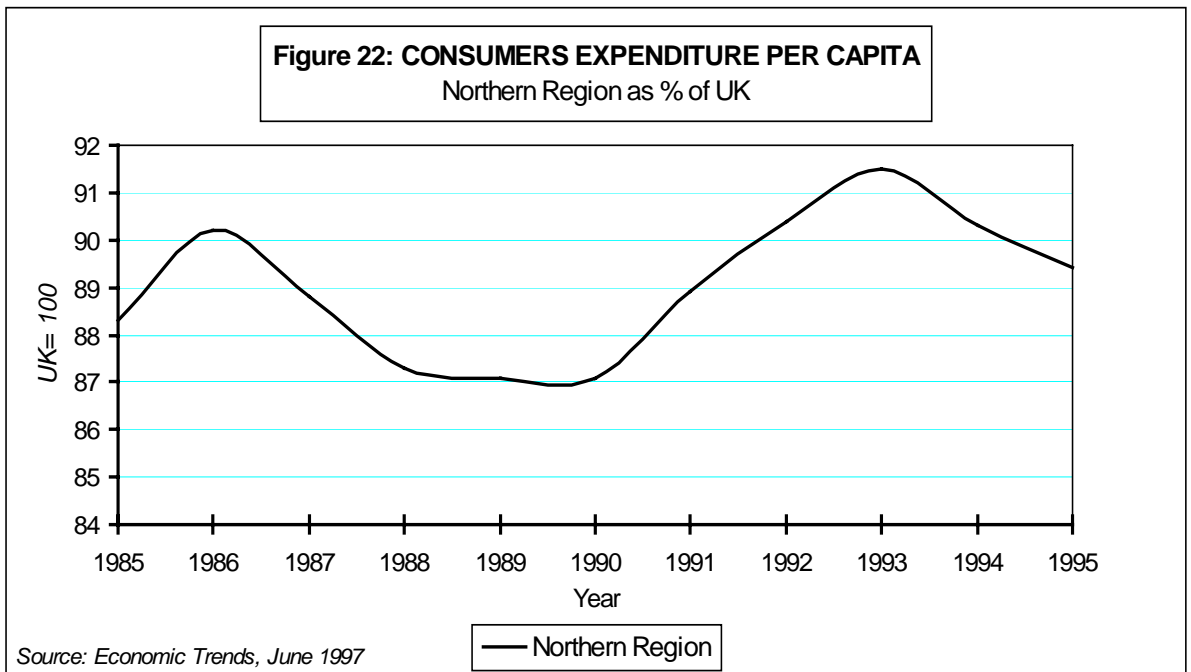
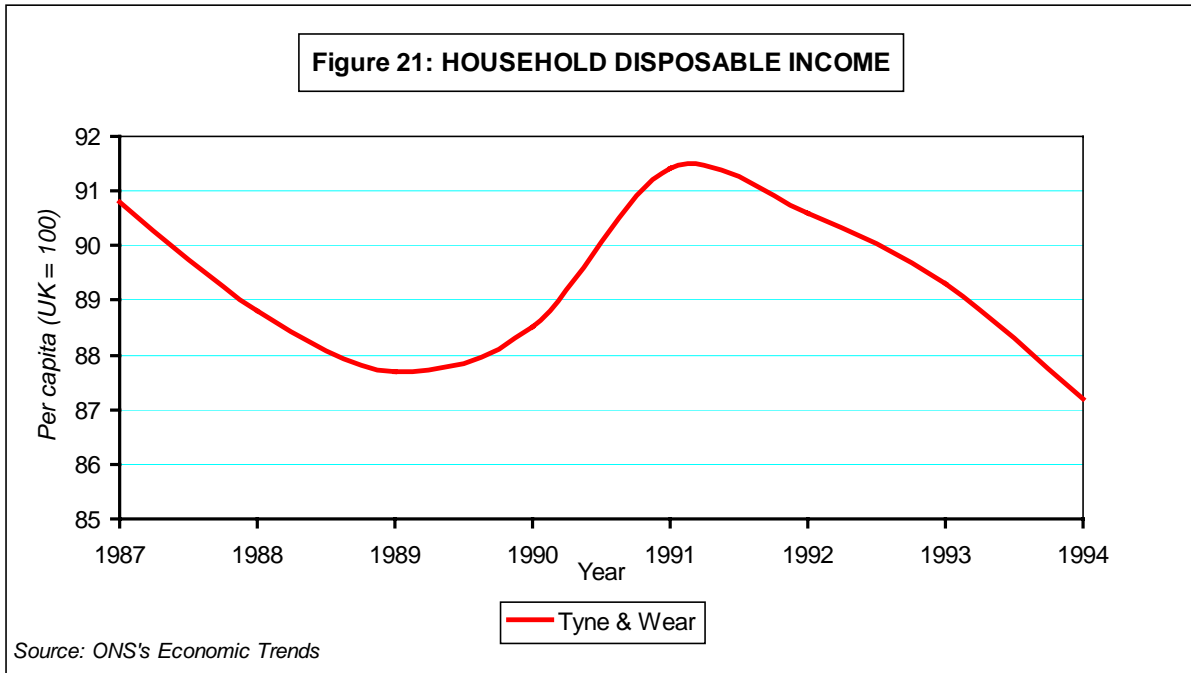
	UK £m	%	North East £m	%
Wages & salaries	331,742	55.4	12,588	55.2
Pensions (state and occup'nal)	97,036	16.2	3,983	17.5
Social Security benefits	46,075	7.7	2,380	10.4
Self employment	60,247	10.1	1,685	7.3
Investment income	44,615	7.5	1,292	5.7
Other income	18,938	3.2	871	3.8
Total Household Income	598,654	100	22,799	100
HDI	493,297	82.4	19,450	85.3
Implied tax etc.	-105,357	-17.6	-3,349	14.7

Source: ONS, *Economic Trends*, June 1997, T7

HDI captures **many effects**, relative to GB/UK, including the **decline of both earnings and benefit rates** relative to average incomes. Household Disposable Income is probably the best available measure of local living standards. It relates to households only, not the whole of the personal sector which includes unincorporated businesses (firms which are not companies). It includes all sources of household income, not just earnings. It therefore picks up the downward dragging effect of zero real growth in benefits (including the state pension). Since 1980 these have been linked to prices only. This will have depressed Tyne & Wear's HDI relative to the UK because a higher proportion of residents live on benefit and the proportion of HDI coming from benefits is much higher (we know this is 10.4% in the North East against 7.7% in the UK in 1995, see Table 4). HDI is disposable in the sense that it is net of tax and other deductions. It is not, however, net of housing costs. ONS produces these estimates for HDI by putting together data from a number of sources including the earnings series.

The main changes in the **composition of household income** since 1987 are a five percentage point drop in the share from employment (from 60.6% to 55.2% : the 1995 data are, however, for NE rather than the Northern Region). The main sources to increase their share are pensions, up about 2 percentage points (from 15.2% to 17.5%); social security, up about 1.5% (from 9% to 10.4%) and self-employment up about 0.5% (from 6.7% to 7.3%).

The rises in **investment income** over the last decade or so are indirectly captured by HDI. The proportion of household income derived from this source has risen by about a fifth over eleven years (from 4.6% in the North in 1984, to 5.0% in 1987 and, for the North East, 5.7% in 1995). This has mainly benefited older people, including retired people, who tend to have more wealth in financial



assets. Although Tyne & Wear has a relatively large retired population (in 1996 at 18.9%, 0.8 above the UK average) it is unlikely to have benefited as much as the UK average from the growth of investment income. This is because of low rates of share ownership and lower incomes in work. Tyne & Wear will, however, have shared to some extent indirectly through the big growth in incomes from occupational pensions. This was evident in the data for the North in the 1980s. For example in just three years from 1984 to 1987 in the North the share of household income from occupational pensions rose from 8.0% to 8.8%. In the same period the share of income from state pensions fell from 6.8% to 6.4%. Unfortunately, recent official data combine both state and occupational pensions.

Caveat: The HDI series is not a single consistent series. All the figures come from Economic Trends but the latest figures, 1991-94, revise some previously published figures. It is possible that the pre-1991 figures would be different if consistent with the later figures.

4.8 CONSUMERS' EXPENDITURE

Consumers' expenditure data are not available at county level. Tyne & Wear, however, represents about two-fifths of the region. There is no reason to think that the main trends in consumers' expenditure are different in the region from Tyne & Wear. Moreover consumers' expenditure, although for the region, shows a remarkably similar timing of its relative improvement (1989-93), just like Tyne & Wear's improvements in per capita GDP and migration (Fig. 22). The Northern Region's index values of consumers' expenditure per head **rose over four percentage points relative to the UK from 1989** and 1990 (87.1% of the UK) to 1993 (to 91.5% of the UK average). [Source: ONS's *Economic Trends*, June 1997, T3].

Consumers' expenditure has also declined relative to the UK in 1994 and 1995. The fall from 1993 to 1995 is over 2% relative to the UK.

Notes: The 1995 figures are provisional. The Consumers' expenditure series is based on the Family Expenditure Survey. The 2% fluctuation since 1993, above, is probably within the margin of error of the estimates. It is, however, more suggestive than this given the downward direction of other indicators since 1993, notably migration and GDP. The measure of consumers' expenditure has a discontinuity between 1989 and 1990 because the community charge/poll tax is treated differently from domestic rates.

5. POPULATION AND MIGRATION INDICATORS

5.1 POPULATION CHANGES

Population change in Tyne & Wear reflects the relative performance of the local economy and labour market (Fig. 23). Population has **declined in all but three of the last fifteen years**, reflecting stronger economies elsewhere (and the urban-rural shift). The local economy's **strongest** period in recent years, around **1988-92**, is reflected in population change. Net population change turned from sharply negative in 1988 (a net loss of 4,500 people) to large gains in 1992 and 1993 (of 3,500 pa or more). Moreover these were not just one-offs: net population loss declined steadily from 1988 to 1991.

Each of the Districts lost population in most (or all) years. Population change, however, improved (i.e. became less negative) between 1988 and 1992 in all Districts except North Tyneside. North Tyneside's population "gains" in 1987-89 are attributable to upward revisions. Therefore, its downward trend may not reflect actual change.

The recent years' data, 1994-96, suggests that the **local economy may be lagging** behind the UK again. Population loss has resumed at an annual rate of around 3,000 p.a..

5.2 MIGRATION

Migration **reflects the relative performance of the local economy** (Fig. 24). Net out-migration occurred every year except 1992 and 1993. Out-migration has, however, been much lower since 1989 than in the 1980s. There was a very clear improvement in migration between 1988 and 1992-93. In 1988 the UK economy grew rapidly, the fastest year of growth of the late 1980s boom and net out-migration from Tyne & Wear was over 5,500. Conversely, between 1989 and 1993 the Tyne & Wear economy grew about 7 percentage points more than the UK, according to the GDP figures - in effect growing through the UK recession. Between 1989 and 1993 net out-migration slowed progressively and net migration turned into a net in-flow in 1992 and 1993 (of about 2,000 pa).

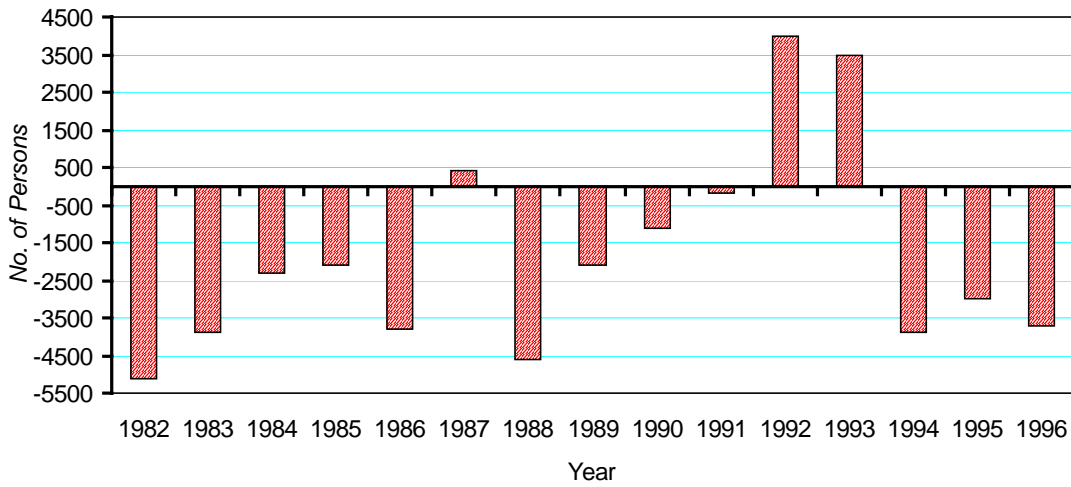
Migration from Tyne & Wear **responded to the changing fortunes of the local economy**. Net migration (in-migration minus out-migration) has been outward almost every year from 1982-96. This is typical of the large metropolitan areas in this period, although the population of London has started to rise in the last few years. The rate of net out-migration has been -0.5% pa (-5 per 1,000) or less since 1983. This is a much lower rate than some other metropolitan counties. In 1989-93, the net migration rate was about half of the overall average rate since 1983 at -3 per 1,000 pa or less.

Out-migration from the big cities is arguably driven by two powerful **processes; inter-regional migration** and part of the "**urban-rural shift**". Inter-regional migration, especially to the south-east, accelerates when the UK economy is growing markedly more quickly than the local. The urban-rural shift process seen here is local migration to neighbouring rural districts.

The improvement in migration closely **coincided with the local economy's strongest performance** in the last twenty years. Between 1989 and 1993 the economy grew by about 7 percentage points more than the UK (GDP measure). The rate of net out-migration declined year-on-year from 1988 to 1991, turning positive in 1992 and 1993.

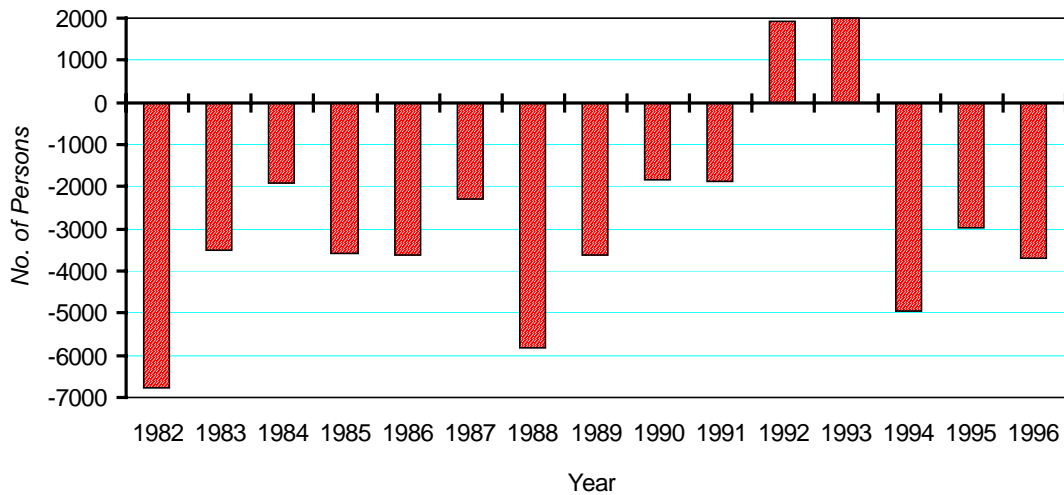
Migration to the South East fell year-on-year 1987-91 from an out-flow of 2,600 to 400 pa. It turned slightly positive in 1992 and with a net migration in-flow from the South East of over 200 in 1993. Net migration to the South East improved in the 1990s due mainly to higher in-migration (up 380 to 4,770 pa compared to the whole 15 years 1982-96). Out-migration to the South East fell more modestly (down 240 to -5,430 pa).

**Figure 23: NET POPULATION CHANGE IN TYNE & WEAR
1982-96**



Source: OPCS/ONS Mid-Year Estimates

**Figure 24: NET MIGRATION IN TYNE & WEAR
1982-96**



Source: OPCS/ONS NHS Central Register

At the District-level, net migration rates have oscillated. Newcastle has had the greatest range, due to international and/or student moves. Even excluding Newcastle's somewhat dubious peak in 1992 and 1993, net **migration rates improved from 1988 to 1993**. After 1988, out-migration slowed in Gateshead, Sunderland and South Tyneside (resuming in the latter in 1992). Out-migration slowed in North Tyneside from 1989 onwards.

Net **out-migration resumed from 1994 onwards**. Importantly, this suggests a resumption of the under-performance of the local economy, at least in the labour market. District net migration rates, even excluding Newcastle, have also generally deteriorated from 1994, compared with the previous few years. This shows that the deterioration since 1994 is not due to a single District. It is a widespread phenomenon.

The age groups with the marked improvement in migration were young workers and the core workers (strictly 16-24 year olds and 25-44 year olds whether working or not). Among 16-24 year olds, migration turned strongly positive to around +1,900 in 1992 and 1993. The expansion of higher education may have added to the flow of workers and spouses migrating to Tyne & Wear. The out-migration of "core workers" (aged 25-44) fell by nearly 1,000 p.a. to between 1,500 p.a. and 1,700 p.a. in 1991-1993.

Note: The data source for migration is the NHS Central Register (NHSCR).

Caveat: The improvement in migration after 1988 is robust. There is, however, some doubt about the 1992 and 1993 in-migration. This rests on international in-migration as recorded by the International Passenger Survey, IPS. The sample numbers in the IPS are small and thus there may be a distortion due to grossing up.

6. ECONOMIC PERFORMANCE SINCE 1993

6.1 UNDER-PERFORMANCE

A resumption of *relative economic under-performance* by the Tyne & Wear economy since 1993 is the clear message of the available indicators (analysed above). According to those indicators which are available for the whole period since 1993, relating to migration and demand, the Tyne & Wear economy has clearly **not continued its very strong performance of 1989-93**.

Between 1993 and 1995, the GDP index fell 3.5 percentage points relative to the UK. This is the key recent indicator, because it is the aggregate of all economic activity. Also, the migration figures have been found to tally closely with the GDP index and are thus a useful “predictor” of the recent course of the GDP series. Since the latest GDP index value (1995), net migration has continued to be sharply negative - suggesting further relative decline.

Both the GDP and migration statistics point to **faster economic growth outside than within Tyne & Wear**. This period since 1993 has been one of continuous growth in the UK economy. What appears to have happened is that the swing from recession to growth in the UK economy has had the effect of making what has been a comparatively consistent performance by the local economy appear to change from relative strength to relative weakness *vis-a-vis* the UK.

Household Disposable Income and Consumers’ Expenditure provide some re-inforcement of the evidence for under-performance relative to the UK since 1993. Both these indicators declined after 1993, to 1994 and 1995 respectively. These series are admittedly limited; it is wise not to place reliance on single indicators or short periods.

The indications for **manufacturing performance since 1993** are, however, **positive relative to the UK**. The BSN series shows domestic sales (and therefore the largest element of output) have been somewhat above the UK average.

The data are broadly **consistent with economic growth continuing** in the local economy at a rate of about 2% p.a.. Given a fairly steady absolute performance of the local economy, the strongest influence on the *relative* performance of the local economy is the UK economy as a whole. The irony continues that TW’s strongest *relative* performance (and absolute performance in terms of migration) was during UK recession and during a period of growth it has tended to fall behind.

At the time, **1993 was clearly recognisable as a bad year**: Swan Hunter went into administrative receivership and both the remaining pits closed with thousands of jobs lost. Even these losses, however, were not as great as was typical of most years in the 1980s. The claimant unemployment figures, since 1993, however, have picked up only a small part of this decline. The differential between the unemployment rates of TW and the UK rose only marginally, from 2.9 percentage points in 1993 to 3.1 in 1995 (or about 1,000 people). Perhaps the effects are less obvious. Earnings, for men, have stagnated. Since 1992 they have practically stopped rising in real terms. It is therefore not surprising that from 1993-97 house prices have fallen, relative to the UK, by about 5%.

Importantly, this research shows that **clear structural improvements** have been achieved in the decade or so since 1986 in the performance of the Tyne & Wear economy: a quarter of the GDP gap (opened up since 1977) has been re-couped, manufacturing productivity has risen above the UK average, manufacturing output has grown rapidly. Most dramatic of all, to grow through the national recession of 1990-92 was a welcome contrast with the previous recession of 1979-81 which was prolonged locally with five years or so of further decline.

