

Economy

Background

The Welsh economy is both a perennial problem and a puzzle. Few other parts of Europe have been subject to such prolonged attempts to achieve a sustained improvement in overall performance – a long history of more than 80 years of efforts dating back to the development of industrial estates to create jobs in badly-hit mining areas between the wars. Yet the challenges remain. A wealth gap that has existed for more than 100 years between Wales and the more prosperous regions of Britain has been widening in the first few years of the 21st Century, and on many measures Wales ranks as the poorest, or at best second or third poorest performing region of the UK economically.

Put starkly, Wales has the lowest level of Gross Value Added (a measure of the output of goods and services) of any of the UK regions, at less than 75 per cent of the UK average. The Welsh figure even then is held up by the performance of Cardiff and its surrounding areas where GVA is around UK average figures. Some parts of Wales, notably Anglesey, have a GVA only around half the UK figure, and it has just been hit (in late 2009) by the closure of its biggest private sector employer, Anglesey Aluminium. The south Wales Valleys, too, remain among the poorest parts of the UK and are also suffering an erosion of jobs.

Productivity in Wales lags behind the rest of the UK as do exports, a sharp contrast with the picture 100 years ago when Wales was among the world's leading exporters, sending its coal to all corners of the globe. This one time predominance of coal – which ended after the First World War with the switch to oil in many industrial and transport uses – is still at root the heart of the problem. Wales failed in era of coal and steel – its other main industrial sector – to develop a diversified economy, and repeated attempts to correct this fault, through post-war direction of industry, inward investment incentives and the encouragement of indigenous entrepreneurialism have still not paid off.

Wales has a very small portfolio of company headquarters, a poor record in business start-ups, a relatively small financial services sector, with only one or two Welsh-based institutions providing finance to businesses in Wales, and way below the share of UK research and development expenditure that might be expected. Two decades of success in the 1980s and 1990s in attracting inward investment, which saw Wales winning some of the biggest projects to come to the UK, have now run their course. Many of the companies that were attracted to Wales by the incentives on offer in that period have now found it more profitable – having passed Go and collected the funds on offer in Wales - to scale back or move their operations to other destinations on the globalisation game board.

The vacuum left by a weak private sector has been filled to a large extent by the public sector - mostly health, education and local and national government, which now accounts for more than 60 per cent of the Welsh economy, a figure higher than in many parts of former eastern Europe.

Economic Management

Responsibility for overall economic policy in the UK rests with the relevant Whitehall departments but since devolution the broad management of economic development in Wales has been passed to the Welsh Government. The lead department for implementing economic policy since June 2007 has been the Department for the Economy and Transport, which replaced the Department for Enterprise Innovation and Networks. The operation of schemes providing assistance to industry is covered by the multi-lateral Concordat on Financial Assistance to Industry between Whitehall economic departments, Foreign and Commonwealth Office, Treasury, and the devolved administrations. The stated objectives of the Department for Economy and Transport are to create jobs across Wales, to stimulate enterprise and growth and to enhance skills for jobs. It lists as its priorities to:

- Support job creation and help individuals tackle barriers to participation in the world of work.
- Implement a labour market strategy with a long term goal of full employment at a rate of 80 per cent.
- Invest in regenerating communities and stimulating economic growth across the whole of Wales.
- Help businesses to start-up and grow by supporting entrepreneurship, innovation, inward investment, trade and skills, ensuring an adequate supply of high quality sites and premises to meet the demands of business.
- Create a single investment fund for business support, to explore the business rate relief scheme, and to increase support for farmer's markets.
- Maintain and enhance the global profile of Welsh business, to attract inward investment into Wales and to secure export business by promoting international trade for Welsh companies.
- Build a world-class 21st Century transport system that provides affordable, environmentally-friendly road, rail, and air transport for business access to markets, and personal travel - especially commuting.

Funding

The Department's revenue spending in the budget year 2009-2010 amounted to £718m with a further £491m being spent on capital projects. In the financial year 2010-2011 revenue spending is planned to increase to £723m, but there will be a drop of £60m in capital expenditure to £431m.

For the period 2007-2013 the West Wales and the Valleys region will be receiving the highest level of European Union support for restructuring from the EU Convergence Fund. This follows on from earlier funding under the Objective One programme from 2000-2006.

The Convergence programmes, which covers 15 local authority areas in the West Wales and the Valleys region, comprise funding from two separate European Structural Funds: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Around £1 billion of ERDF funds are intended to help progress the region's transformation into a sustainable and competitive economy by investing in the knowledge economy and helping new and existing businesses to grow. It will also focus on regenerating Wales's most deprived communities, tackling climate change and improving transport. Over £690 million from the ESF will be used to tackle economic inactivity, increase skills and employment. Together, with match funding, Convergence is designed to enable a total investment of £3.5 billion in West Wales and the Valleys, including match funding from non-EU and mainly private sector sources.

Support for businesses in Wales is offered through a variety of channels:

- International Business Wales is the main inward investment promotional arm.
- Finance Wales offers investment funds to small and medium-sized enterprises employing fewer than 250 people and with a turnover of no more than Euro 50m million.
- Venture Wales provides helps to entrepreneurs seeking to start or grow their businesses.

Basic Facts

How much do we have to spend?

Gross Disposable Household Income	£ per head 2007
England	14,556
North East	12,216
North West	13,038
Yorkshire and Humberside	12,901
East Midlands	13,268
West Midlands	12,941
Eastern	15,083
London	17,931
South East	16,095
South West	14,187
Wales	12,574
Scotland	13,587
Northern Ireland	12,472

Welsh households have roughly 14 per cent less to spend than their counterparts in England and as much as 30 per cent less than someone living in London. In 2007 the only regions with a lower household income were the North East and Northern Ireland.

How much do we earn?

£ per head	2000	2004	2005	2006	2007	2008	2009
UK	425	498	516	534	550	575	587
England	433	508	525	544	560	586	597
Wales	372	438	454	466	472	498	506
Scotland	388	455	479	499	514	536	555
N. Ireland	367	430	450	469	471	487	511

Earnings in the UK have grown by 38 per cent since 2000 and by 36 per cent in Wales. Earnings in Scotland grew by 43 per cent over the same period.

How valuable are the goods and services we produce?

Gross Value Added by Region	2008	Per head 2008 £	% of UK 2008	% Growth over 2007
UK	100	20,520	100	3.5
England	102	21,020	85.9	3.5
North East	77	15,887	3.2	3.2
North West	86	17,555	9.6	3.6
Yorkshire and Humberside	83	17,096	7.1	3.3
East Midlands	88	18,041	6.3	3.2
West Midlands	85	17,463	7.5	3.0
Eastern	95	19,473	8.9	3.3
London	170	34,786	21.0	4.1
South East	105	21,688	14.4	3.0
South West	92	18,782	7.8	3.6
Wales	74	15,237	3.6	3.0
Scotland	98	20,086	8.2	4.7
Northern Ireland	79	16,188	2.3	3.0

The Welsh economy has been growing at a slower rate than that of the UK as a whole or that of England and Scotland, making it impossible to close the gap in Gross Value Added per head. The biggest growth has been in London and Scotland with most other regions apart from Wales also growing more slowly than the economy of the south east as whole, including London.

How does gross value added compare with other UK nations?

Regional Value Added by Country £ per head	2000	2005	2006	2007	2008
UK	14,308	18,123	19,011	19,951	20,520
England	14,686	18,859	19,496	20,458	21,020
Wales	11,036	13,717	14,228	14,853	15,237
Scotland	13,468	17,262	18,266	19,267	20,086
Northern Ireland	11,423	14,547	15,200	15,854	16,188

Welsh GVA increased by just under 40 per cent in the period between 2000 and 2008. In Scotland and England the rise was around 50 per cent and in Northern Ireland 42 per cent.

How many people of working age are in work?

Persons Employed %	1999	2004	2005	2006	2007	2008	2009
UK	74.1	74.8	74.5	74.6	74.7	74.2	72.4
England	74.9	75.1	74.7	74.8	74.8	74.4	72.7
Wales	69.4	72.2	71.8	71.6	72.4	70.7	69.1
Scotland	71.6	75.2	75.4	75.6	76.6	75.5	74.0
Northern Ireland	66.8	68.4	69.4	69.7	69.7	69.4	67.2

Last quarter or relevant year

Scotland and to a lesser extent Northern Ireland have succeeded in getting more people into work in the past ten years, with Wales, the UK and England showing modest declines.

How many people are out of work?

Persons Unemployed % Sept-Nov quarter	1999	2004	2005	2006	2007	2008	2009
UK	5.8	4.7	5.1	5.4	5.3	6.2	7.8
England	5.6	4.6	5.1	5.5	5.4	6.3	7.9
Wales	7.3	4.5	4.8	5.3	5.0	6.9	8.5
Scotland	7.1	5.5	5.4	5.2	4.9	5.2	7.4
Northern Ireland	6.6	5.1	4.6	4.2	4.4	4.3	6.8

After a period of outperforming the rest of the UK in the middle years of the past decade Wales now has the highest rate of unemployment among the UK nations.

Where do Welsh people work? Totals for 2008

All industries	1,183,000
Agriculture, forestry, hunting fishing	18,300
All construction and production industries	228,900
Energy and Water	6,400
Manufacturing	161,500
Construction	61,000
Service industries	935,800
Distribution hotels and restaurants	272,500
Transport and Communications	50,600
Financial intermediation and business services	166,500
Public administration, education and health	389,600
Other services	56,600

Employment in manufacturing has decline from more than 200,000 ten years ago to only 161,500, fewer than in financial intermediation and business services (166,500). The largest totals are in the service sector which now employs roughly 80 per cent of the Welsh labour force. Within this total public administration accounts for 32 per cent of all employment.

How many people are inactive (excluding students and retired)?

	2000	2004	2005	2006	2007	2008	2009
UK	21.4	21.4	21.4	21.0	21.0	20.8	21.2
England	20.9	21.1	21.2	20.7	20.8	20.4	20.9
Wales	26.4	24.3	24.4	24.2	23.6	23.8	24.2
Scotland	21.2	20.3	20.2	20.2	19.4	20.2	19.8
Northern Ireland	28.7	27.8	27.2	27.2	27.0	27.5	27.8

Quarter September-November

Some progress was made during the past decade in reducing the proportion of Welsh people economically inactive but the figures have begin to increase again with the impact of recession. Excluding students and the retired, Wales now has nearly a quarter of individuals aged between 16 and 64 who are not in work or seeking work. This is significantly higher than Scotland and England where the proportion is roughly 20 per cent.

How big is the public sector in the total economy?

Public spending as share of GDP in United Kingdom

	2001	2002	2003	2004	2005	2006	2007
UK	40.6%	41.8%	43.2%	43.5%	44.5%	45.0%	44.1%
North East	59.3%	60.5%	61.9%	61.7%	61.9%	65.8%	63.0%
North West	49.9%	49.9%	50.9%	53.1%	53.2%	55.5%	54.0%
Yorkshire & the Humber	47.1%	47.4%	47.4%	49.7%	50.0%	51.6%	49.5%
East Midlands	40.1%	40.7%	42.4%	41.8%	42.3%	43.5%	42.1%
West Midlands	43.2%	44.4%	46.7%	47.2%	47.7%	48.6%	47.1%
East of England	36.6%	37.6%	38.6%	38.7%	38.9%	39.5%	38.3%
London	31.1%	32.2%	32.8%	33.4%	33.4%	33.2%	31.4%
South East	31.8%	32.7%	34.6%	34.5%	35.6%	34.8%	33.5%
South West	40.0%	41.0%	42.6%	42.4%	43.0%	43.4%	42.0%
England	39.2%	40.1%	41.6%	41.7%	42.1%	42.7%	41.0%
Wales	60.4%	60.7%	62.3%	62.3%	63.1%	65.9%	64.3%
Scotland	50.7%	51.6%	52.2%	53.4%	54.3%	56.2%	56.2%
Northern Ireland	66.6%	66.2%	67.8%	67.8%	70.7%	71.2%	70.5%

Source for all the above tables: Stats Wales, Office of National Statistics

Only Northern Ireland has a higher proportion of its total economy in public hands than Wales, and special considerations such as the need for a large security presence apply there. The only English region with a similar proportion is the north east (at 63 per cent just 1.3 per cent lower than Wales). In the UK as a whole the public sector accounts for 44.1 per cent of the economy and in London and the south east barely one third. The figure for Wales is also higher than in most comparable countries in Europe, including those such as Sweden and France which have high levels of state social spending.

- How does Wales compare with other countries?

Country	Public sector share of economy % 2007
France	53.2
Sweden	52.4
Hungary	50.8
Italy	50.0
Portugal	46.6
UK	44.1
Germany	44.1
Spain	38.5
Japan	38.4
USA	34.9
Ireland	34.1
Wales	64.3