Regional differences and their importance for the UK economy

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This article offers an analysis of regional economic performance in the United Kingdom, looking both at longer-term trends and the short-term outlook. It incorporates data published by various sources during the first three quarters—including government statistics and industrial surveys—and includes information from the Bank's Agents. A number of points are highlighted:

- *Generally, the differences in the average income levels of the regions have been persistent over the last two decades. The main changes in regions' relative incomes have affected the West Midlands and the North West (adversely), and Scotland and East Anglia (positively). The South East has consistently been the most prosperous region and Northern Ireland the least.*
- *The dispersion of regional growth rates tends to widen in a recession, as some regional economies are more cyclical than others.*
- *Labour mobility between regions is low, compared with countries such as the United States. Despite this, there has been an unprecedented convergence in regional unemployment rates recently, while the corresponding earnings differentials have widened. The convergence in unemployment rates seems largely the result of the recent recession, which had a particularly big impact on the South East.*
- *At present, the recovery seems well-balanced and all regions are growing. The evidence suggests that the South and the Midlands are growing relatively strongly.*
- *Regional house prices have yet to rise consistently in the present recovery; business and consumer confidence remains generally fairly subdued.*

Why is it important to look at regional performance?

This article analyses the United Kingdom's economic performance by region. The Bank of England has three reasons for being interested in the subject.

First, an examination of the differences between regions can improve understanding of the nature of economic cycles and of the effects on the economy of disturbances ('shocks') to supply or demand—such as a change in raw material prices that affects particular industries or, on the monetary side, a change in real interest rates. Some of these shocks, although they affect the whole economy, have a greater impact on some regions than on others, because of differences in industrial structure or demographic composition. Shocks affecting particular industries—such as the impact of increased international competition on the car industry in the 1970s, or the effect of liberalisation on financial services in the 1980s—and longer-term trends, such as the decline in shipbuilding and coal mining, clearly affect some regions particularly. Technological shocks that affect particular industries will likewise have geographically unequal effects. And compared with the United States for example, the United Kingdom's regional inequalities in average income, unemployment rates, etc are enduring. The economy does not appear to be very flexible in accommodating shocks.

The process of adjustment to shocks takes place over both time and space. As a result, an understanding of the regions may improve understanding of the national economy and its responsiveness to shocks. It may do so even though many regional data are not produced in a timely way and so cannot provide *early* warnings of developments in the wider economy. Regional GDP data, for example, appear some time after the national statistics; currently, the most recent annual data cover 1992. Regional labour market data are published at best contemporaneously with the national figures. And the available data on regional prices—produced by the Reward Group—are produced biannually. Nevertheless, appreciation of regional patterns may improve understanding of the processes of adjustment of the economy. For example, if inflation is related to the economic cycle, examining the regional price pattern during the cycle may shed light on the inflation process.

Second, regional patterns of activity may be affected by monetary policy. Monetary policy is directed at the objective of national price stability, but policy decisions may affect regions differently. The present high debt levels in the South East may, for example, make that region more sensitive to interest rate changes than the North and Scotland, and may influence the path of its recovery.

Finally, the picture to be drawn from a set of whole-economy statistics is not independent of their regional composition, because how the economy as a whole responds will be affected in a number of ways by the dispersion of the components. The overall level of unemployment, for example, will depend on the regional pattern of labour demand and supply. Total household expenditure will depend on the dispersion of the level of indebtedness. And national wage inflation will depend on the regional distribution of wage increases if there are structural rigidities: particular regions may be especially important if, for instance, there is a 'leading region'—one which dominates in the setting of national wage rates—whose wages are sensitive to demand conditions. In that case, the impact of demand in the 'leading' region will extend into other regions and, as a consequence, a wider variation in regional growth rates would be associated with higher average wage increases.

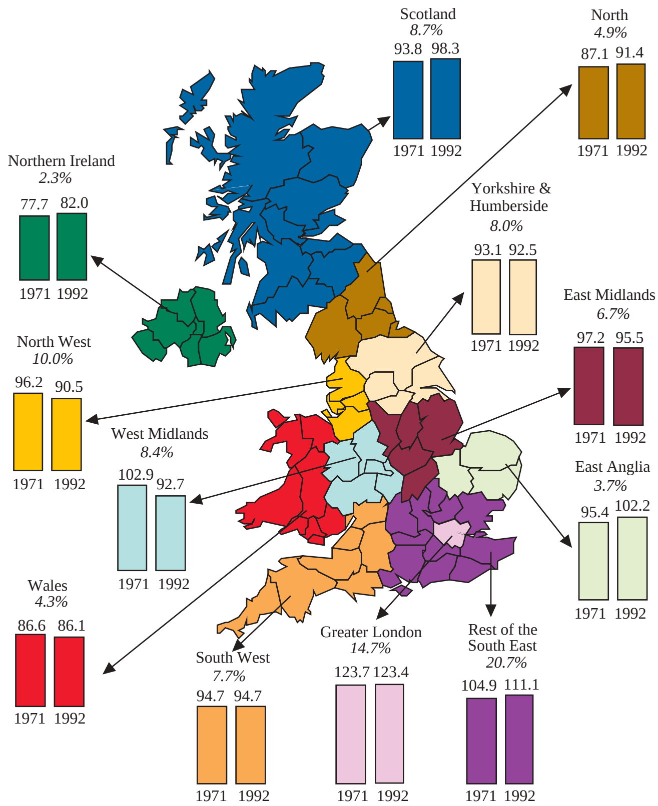
Long-term regional trends

GDP per head

Data are collected for 12 *standard regions* in the United Kingdom. The regions have been defined historically, both as large areas with some internal cohesion for the purposes of economic management, and on political and cultural grounds.(1) They are shown in Chart 1, with their levels of income(2) for 1971 and 1992 relative to the UK average, and their share of national GDP in 1992.

The ranking of the regions by GDP per head has changed very little over the last 20 years, especially at the extremes of the range: Greater London and the Rest of the South East have remained at one extreme, and Northern Ireland and Wales at the other (see Table A). Among the middle-income regions, the West Midlands fell from third to seventh most prosperous between 1971 and 1992, Scotland rose from eighth to fourth and East Anglia from sixth to third. In 1971, GDP per head exceeded that of the median region in the South East (including Greater London), the East and West Midlands, and the North West. In 1992, the South East and the East Midlands were still above the median, but East Anglia and Scotland had replaced the West Midlands and the North West. The overall dispersion of GDP per head narrowed slightly over the period—the ratio of the GDP per head in the highest region (Greater London) to that in the lowest (Northern Ireland) fell from 1.59 in 1971 to 1.52 in 1992.

Chart 1
Index of regional GDP per head (UK=100)(a)



(a) Each region's share of UK GDP in 1992 is given in italics. GDP is at factor cost.

Table A also illustrates how GDP per head has grown in the regions. In the 1979–81 recession, output per head fell most heavily in the West Midlands. In that between 1990 and 1992, it fell most rapidly in Greater London and the Rest of the South East; in Scotland and Northern Ireland, however, it continued to increase. The regional variations in activity

Table A
Ranking and growth of real GDP(a) per head by region (1990 prices)

Percentages in italics

	Ranking of regions by GDP per head		Growth from: Trough to peak	Growth from: Peak to trough
	1971	1992	1971–90	1990–92
East Anglia	6	3	*57.5*	*-2.7*
East Midlands	4	5	*46.5*	*-4.1*
Greater London	1	1	*51.7*	*-5.9*
North	10	9	*50.4*	*-0.5*
North West	5	10	*39.9*	*-3.8*
Northern Ireland	12	12	*47.0*	*2.7*
Rest of South East	2	2	*60.5*	*-5.7*
Scotland	8	4	*49.1*	*0.6*
South West	7	6	*48.2*	*-3.5*
Wales	11	11	*45.2*	*-2.0*
West Midlands	3	7	*33.9*	*-3.7*
Yorkshire and Humberside	9	8	*45.0*	*-2.0*
United Kingdom			*48.3*	*-3.6*

(a) Calculated using the UK GDP deflator.

(1) See, for example, Brown, A J, (1972), *The framework of regional economics in the United Kingdom.*
(2) GDP per head is measured here as regional GDP divided by regional population.

are high in comparison with the variations for the United Kingdom as a whole.(1)

A picture of slightly greater change in relative incomes emerges from more disaggregated, county-level data. In 1991, 19 counties (out of 62) had GDP per head above the UK average, compared with 13 in 1977. Of the 19, nine—six of those in the South—had GDP per head above the UK average in 1977 as well (Table B).

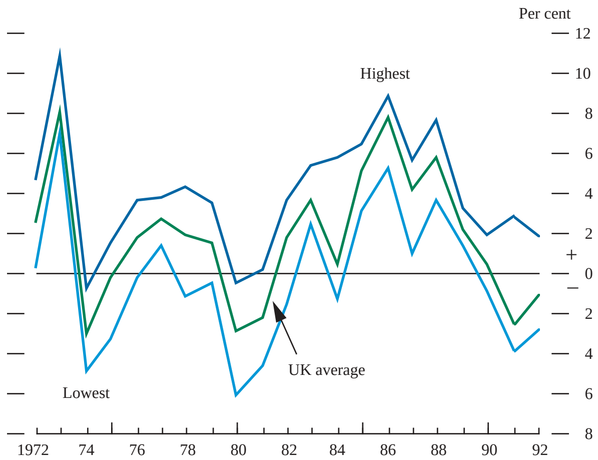
Table B
Counties with above-average GDP per head(a)

In 1977 and 1991; *1977 in italics*

Above-average in both 1977 and 1991			Above-average in 1991 but not in 1977		
Greater London	*140.3*	146.5	Buckinghamshire	*89.5*	113.4
Grampian	*110.3*	134.8	Lothian	*99.7*	110.5
Berkshire	*115.8*	129.0	Cumbria	*96.3*	112.7
South Glamorgan	*107.5*	110.9	Wiltshire	*97.9*	110.0
Cambridgeshire	*102.4*	108.7	Surrey	*83.1*	107.3
Avon	*102.3*	104.2	Oxfordshire	*94.1*	104.9
Cheshire	*108.3*	103.6	Leicestershire	*98.3*	104.6
Hertfordshire	*107.6*	102.8	Hampshire	*99.1*	103.1
Bedfordshire	*100.5*	100.7	Northamptonshire	*95.1*	101.6
			Gloucestershire	98.9	100.9

(a) UK=100. Four regions had above-average GDP per head in 1977 but below-average in 1991: Cleveland *110.1* 89.3; Nottinghamshire *100.5* 98.0; the West Midlands *109.5* 96.7; and the Borders in Scotland *100.8* 81.5.

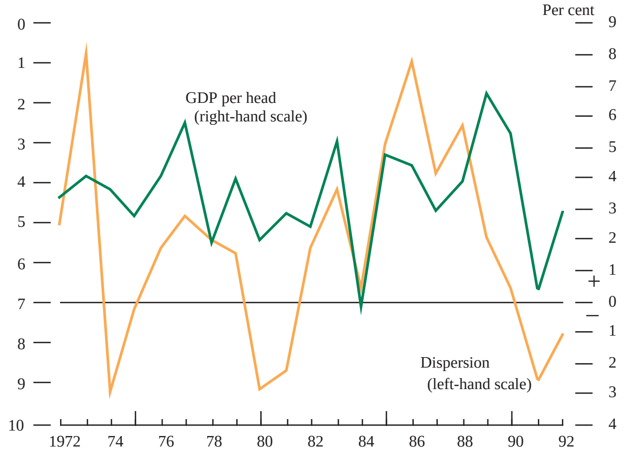
Chart 2
Growth in regional real GDP per head:(a) dispersion



(a) UK GDP per head in real terms given by the GDP deflator.

Chart 2 shows the range of regional growth rates in real GDP per head during the last 20 years. Whereas in the 1979–81 recession GDP per head fell in every region, as already noted in 1990–92 it did not fall in Northern Ireland or Scotland. As Chart 3 suggests, during a recovery growth tends to increase in all regions, but recessions have a more diverse impact: some regions seem relatively unaffected and carry on growing. These findings prompt a number of questions: are most of the adverse shocks that lead to a downturn specific to one or a few regions initially, and then transmitted to others; or is it simply that such shocks affect regions differently? Is the impact on the whole economy influenced by the extent of the regional dispersion? And are beneficial shocks more fully transmitted between regions

Chart 3
Growth of GDP per head(a) and dispersion of growth rates across regions



(a) The figure for GDP per head is average annual UK growth; that for dispersion is the difference in GDP growth between the fastest and the slowest-growing region (note inverted scale).

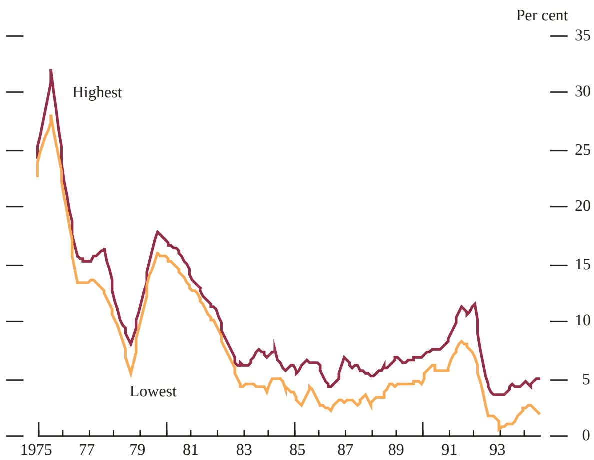
than adverse shocks; or are they more likely to have a national source? Is there an asymmetric element of this kind in the regional impact of shocks? These are all important areas for future research.

Regional prices

As the central bank, the Bank's primary concern in assessing regional performance is inflation. The Central Statistical Office publishes no data on regional price inflation. The Reward Group, however, produces regional cost-of-living series—the equivalent of consumer price indices—for its 11 major UK regions.(2)

Regional inflation rates differ considerably: over the 1975–94 period, the average difference between the highest and lowest regional annual inflation rates was 2.2 percentage points (see Chart 4). Over the period, the South East had the highest average inflation rate (9%) and Wales the lowest (8.8%); the difference between the two was comparatively

Chart 4
Range of regional inflation rates



(1) Note that this would be obviously true if regions were mutually independent; they are not, however, so the calculation is informative.
(2) Greater London and the Rest of the South East are grouped as one region. The data are based on surveys and the price series excludes mortgage interest payments.

small and does not indicate any major divergence in regional price levels.[1] Nor, for example, has the South East consistently had the highest rate of inflation—the ranking of the regions has varied significantly over the years. Regional price inflation is an area which warrants further attention—for example to investigate whether it exhibits a cyclical pattern.

Unemployment

As well as having the highest regional GDP per head, the South East (including Greater London) is the location of more than 35% of UK activity (see Chart 1). It has only 31% of total unemployment, however. Regional unemployment rates have converged over the last decade. As one consequence, the *relative* position of Greater London, in particular, has deteriorated: by 1993, Greater London had an unemployment rate of 11.6%, compared with 10.2% for the South East as a whole and a UK average of 10.3%. The North (11.9%), North West (10.7%), Northern Ireland (14.1%) and the West Midlands (10.9%) had unemployment rates above the average in 1993—and accounted for 31% of total unemployment. The convergence of unemployment rates has coincided with a widening of the dispersion of regional earnings (see the box on page 330). There has also been a convergence in the proportion of the unemployed classed as long-term (out of work for more than one year). Excluding Northern Ireland—where the proportion has risen over the last decade to 54% in July—the regional range has narrowed: from 13% in January 1983 (28% in the South East, 41% in the West Midlands) to 10% in July this year (32% in East Anglia, 42% in the West Midlands).

Industrial compositions

The regions have very different industrial structures (see Table C), and these have an important influence on the impact of shocks. A relatively high share of the West Midlands' GDP is accounted for by manufacturing, centred around the engineering industry; the North and North West also have relatively high manufacturing shares. The South East as a whole has a large services component: almost half of the output of Greater London is in business, financial and other services. But it also accounts for 25.6% of UK manufacturing output. The public sector contribution to GDP in Northern Ireland is relatively large—almost 15%, compared with a national average of 7.1% in 1992.

Table C
Sectoral distribution of activities in regional GDP[a]

	Manufacturing	Business financial and other services	Retailing and wholesaling	Construction	Other (b)
East Anglia	21.7	26.6	13.7	7.0	31.0
East Midlands	28.9	23.4	14.5	6.3	26.9
Greater London	13.3	47.2	13.9	4.7	20.9
North	29.7	22.5	12.4	6.9	28.5
North West	29.0	26.3	14.8	5.8	24.1
Northern Ireland	19.1	22.3	12.7	6.3	39.6
Rest of South East	18.5	35.1	14.5	6.7	25.2
Scotland	21.5	25.0	14.1	7.6	31.8
South West	18.9	28.8	15.3	6.4	30.6
West Midlands	30.2	26.1	14.0	6.1	23.6
Wales	28.0	21.8	13.8	6.8	29.6
Yorkshire and Humberside	27.4	23.8	15.2	6.5	27.1
United Kingdom	22.3	30.0	14.1	6.2	27.4

(a) Data refer to 1992.
(b) 'Other' includes transport and communication, education and health, public administration, agriculture, mining and quarrying, and an adjustment for financial services.

Relative regional performance—both cyclical and longer-term—is clearly strongly influenced by industrial structure. During the 1979–81 recession when manufacturing output was particularly hard hit, the West Midlands experienced the biggest fall in output (see Table D). This was largely because within manufacturing the automotive sector was particularly affected—the output of cars and commercial vehicles fell by over 20% between 1978–82—and a large part of the West Midlands' manufacturing industry was dependent on that sector. Similarly, output fell sharply in the North West. Manufacturing employment fell by over 17% in both regions during 1979–81. The South East, however, suffered more acutely during the latest recession, because of the contraction of the financial and business services sector.

Table D
Cumulative changes in output by regions in recessions

Percentages

	1974–75	1979–81	1990–92
East Anglia	-0.2	-1.2 (a)	-1.2
East Midlands	0.1 (a)	-3.4	-3.0
Greater London	-0.7	-7.3	-4.4 (b)
North	—	-2.7	0.3
North West	-1.4	-7.5 (b)	-3.6
Northern Ireland	-0.2	-4.9	4.1 (a)
Rest of South East	-2.2 (b)	-3.9	-4.5 (b)
Scotland	-0.6	-3.6	0.8 (a)
South West	-3.5 (b)	-1.7 (a)	-1.9
West Midlands	-0.8	-10.2 (b)	-2.6
Wales	4.6 (a)	-6.5	-1.4
Yorkshire and Humberside	-2.0	-5.9	-1.0
United Kingdom	-0.7	-2.8	-2.8

(a) One of the two regions least affected by the recession.
(b) One of the two regions most affected by the recession.

Longer-term national trends—such as the rising share of services to total output between 1970 and 1992 (from 42% of GDP to over 60%), and the decline of manufacturing over the same period (from 33% to 21%)—also affect regional growth rates. But there is some evidence to suggest that growth does not depend merely on a region's industrial composition. Slow-growing regions generally have a larger proportion of slow-growing industries, but it also appears that growth in particular industries tends to be slower in some regions than in others.[2]

Current conjuncture

During the 1990–92 recession, output fell in all regions except Scotland, Northern Ireland and the North; the fall was most severe in the south of the country (see Table D). The GDP data for 1992 showed real growth in all regions except the South East, the East and West Midlands, and the South West. More recently, national output has strengthened significantly. This section investigates how the various

(1) Although regional differences in price levels may exist.
(2) See Taylor, J, 'Regional economic disparities: causes and consequences' in Bowen, A and Mayhew, K (ed) *Reducing Regional Inequalities* (Kogan Page, 1991).

Table E
Synopsis of recent regional performance

Percentages in italics

	CBI survey of manufacturing output	BCC survey of manufacturing sales	BCC survey of services	CBI survey of investment	CBI survey of exports	Change in unemployment rate	Change in employment	Price expectations CBI	Price expectations D&B (1)	Reward CPI inflation	House price increases (2)
Compared at:	1994 Q3	1994 Q2	1994 Q2	1994 Q3	1994 Q3	1994 Q2 on 1993 Q1	1994 Q1	1994 Q3 on 1993	1994 Q3 on 1993	Aug. 1994 on Aug. 1993	1994 Q3
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8a)	(8b)	(9)	(10)
East Anglia	+	+	+	+	+	-	0	+	+	*4.2*	0.7
East Midlands	-	+	-	+	+	-	-	-	+	*3.3*	-0.4
North	-	+	+	+	-	-	+	+	+	*4.1*	-1.7
North West	-	+	0	-	-	-	-	-	+	*3.5*	0.0
Northern Ireland	+	+	0	-	-	-	+	-	+	*4.5*	8.2
Scotland	-	+	-	+	-	-	-	-	+	*2.6*	0.7
South East	+	+	+	+	-	-	-	+	+	*2.1*	0.7
South West	-	+	+	+	-	-	-	+	+	*3.3*	0.8
Wales	-	+	-	-	-	-	-	+	+	*3.7*	-1.7
West Midlands	+	+	-	+	+	-	-	+	+	*3.8*	0.6
Yorkshire and Humberside	+	+	+	+	+	-	-	-	. .	*5.1*	-1.6
United Kingdom	+	+	+	+	+	-	-	+	+	. .	0.0

. . not available.

Comparison is with previous quarter unless otherwise stated. Columns (1)–(5) refer to balances of survey expectations. The signs in columns (1)–(8) indicate the direction of change in the series relative to previous period: positive signs in columns (1)–(5) and (7)–(8) indicate a strengthening; a negative sign in column (6) indicates a fall in unemployment. The CBI survey covers 1,139 manufacturing firms; the BCC (British Chambers of Commerce) surveys cover 3,498 firms in manufacturing and 4,437 in services.

(1) Dun and Bradstreet survey.
(2) Source: Halifax Building Society.

regions have fared within this overall picture of strengthening recovery.

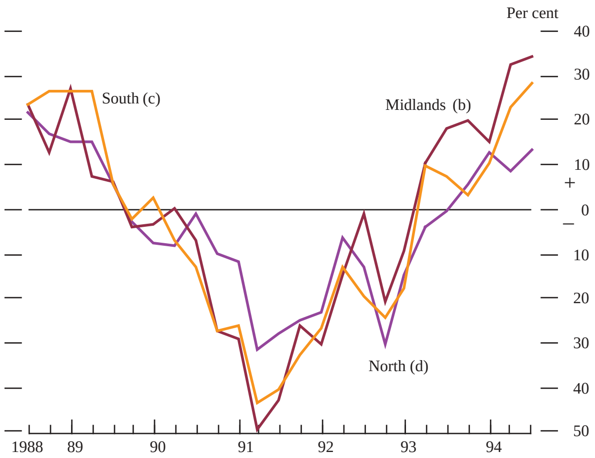
Activity

Output in the manufacturing sector fell by more than in services during the recession of the early 1980s. Manufacturing generally experiences greater cyclical variation than services, and the latest data show manufacturing growing more rapidly: it rose by $3^1/_2$% in the year to the second quarter, compared with 2.9% for services.

Such a pattern of growth will influence the regional pattern of the recovery. Actual output data are available only up to 1992, but there are extensive survey data covering 1993 and 1994.(1) This evidence suggests that most regions' growth rates are rising, but that the southern and Midland regions—particularly the South East, East Anglia and the West Midlands—are recovering faster than elsewhere (Table E). In the CBI/BSL survey of regional trends in August, for the first time since July 1988 manufacturing firms in all 12 regions reported increases in output, orders and optimism compared with the preceding four months. For the South East, the survey showed that output had risen at its fastest rate since 1988.

Chart 5 illustrates the pattern of manufacturing output revealed by the surveys, aggregating the regions into larger blocks. The position in both the South and the Midlands has strengthened recently—the Midlands has the highest positive balance of respondents, but improvement has been somewhat faster in the South recently—but the North remains a little weaker. Manufacturing output is clearly strengthening; because of its composition, the South is doing comparatively well despite its low share in overall output. For example, output is growing faster in lighter

Chart 5
CBI reported output by region(a)



Note: all regions weighted by share of GDP.

(a) Balance of respondents reporting an increase in output.
(b) Includes East Midlands and West Midlands.
(c) Includes South East, South West and East Anglia.
(d) Includes North, North West and Yorkshire and Humberside.

(1) This article draws on data published before 5 October.

The Bank's Agents

The Bank of England monitors economic developments throughout the United Kingdom via its regional network of Agents.

The nine Agents are located close to the main business centres: in Birmingham, serving the West and East Midlands; in Bristol, for the South West and South Wales; in Glasgow, for Scotland; in Leeds, for Yorkshire and Humberside, and Lincolnshire; in Liverpool, for Merseyside, West Lancashire, North Wales and Northern Ireland; in London, for East Anglia and the South East; in Manchester, for Greater Manchester, Central and East Lancashire, and North Derbyshire; in Newcastle, for the North East and Cumbria; and in Winchester, for Central Southern England.

The Bank also maintains contacts with larger companies whose headquarters are in London from its Head Office in Threadneedle Street.

The Bank's Agents liaise with companies and other organisations across their regions. Their contacts cover all sectors of the economy, including both large and small businesses, trade organisations, enterprise agencies and universities; between them, they visit around 4,000 contacts each year.

The Agents have two main roles:

- intelligence gathering, designed to complement the wider analysis of the economy undertaken by the Bank. Direct contacts with individual companies provide additional insight into developments and trends in the real economy, which help the interpretation of statistical evidence and broaden the Bank's understanding. As well as contributing to the Bank's regular reporting round, the information-gathering role can include undertaking survey work on particular issues, such as that on changes in firms' target rates of return (reported in the August *Bulletin*[1]).
- explaining and discussing the monetary policy stance with industrial and commercial contacts, and seeking their feedback and views on its impact.

The Agents regularly report their findings and assessment of the regional economic situation, highlighting both general trends and specific developments. This work is primarily geared towards consideration of the national economic picture, but there is also a significant regional dimension. In addition, the Agents organise a series of regional industrial visits during the year for the Bank's Directors and economists.

(1) See the article on investment appraisal criteria and the impact of low inflation.

electronic engineering—relatively strongly represented in the South—than in heavier mechanical engineering.

The reports from the Bank's Agents confirm this picture of recovery across all regions and some emphasise the improvement in the South East and Midlands. And recent survey evidence from the British Chambers of Commerce indicates that over the last year activity in the Thames Valley has increased faster than in the rest of the country—both in services and the manufacturing sector. The services sector is reported to be particularly strong in the West Midlands; that region's growth in manufacturing sales is also above the national average. The strength of the service sector there may reflect its close links with manufacturing: there has traditionally been significant sectoral interdependence among the region's manufacturing industries (car, metal goods, mechanical engineering) and with its business service sector.

Housing market

Regional house prices provide another indicator of activity. In 1993, house prices fell across England and Wales: in northern regions by 2.2%, in southern regions by 3.5%, in the Midlands by 3.4% and in Wales by 1.3%. By contrast, in Scotland and Northern Ireland prices rose. So far this year, there has been only a modest increase in house prices. For the United Kingdom as a whole, prices rose by 1.0% in the first three quarters of 1994. The increase in southern regions was stronger than the average for the South East.

House price increases in the South may be particularly important in the recovery, since the area has a high incidence of negative equity. Bank estimates suggest that almost 50% of the total value of negative equity is in the South East; in the second quarter of 1994, more than 14% of households in the area had negative equity—of an average £6,900. The comparable national figures were 7.4% of households and average negative equity of £5,500. It is clear therefore that the regional composition of house price increases will have a major influence on the picture on negative equity: price rises in the South East will have a proportionately larger impact in reducing the total.

Consumer confidence

The July Gallup survey of consumer confidence indicated no change for the United Kingdom as a whole, compared with three months earlier. The survey pointed, however, to an increase in overall spending, with growth between the first and second quarters highest in the South East (up 0.6%), the South West (1.0%), Yorkshire and Humberside (0.6%) and the West Midlands (0.7%) (see Table F). Reports from the Bank's Agents have suggested for over a year that retail sales are growing faster in the South; retailing activity in Scotland, by contrast, appears flat. Although consumer

Adjustment in the labour market

The flexibility of labour markets and of real earnings have an important bearing on how an economy responds to shocks. If labour mobility is low and wages adjust slowly to regional inequalities in unemployment, those inequalities are more likely to persist and a shock to a particular region—or one having different effects on different regions—will have more lasting effects on both employment and output. Historically, the processes tending to equilibriate regional unemployment in the United Kingdom have been seen as quite weak, suggesting that labour markets have been relatively inflexible. There has recently, however, been an unprecedented convergence in regional unemployment rates.

Labour mobility

The statistical evidence suggests that the mobility of labour between regions in the United Kingdom is only around a third that in the United States. The OECD reports that in 1986 1.1% of the UK population changed its county of residence; the figure in the United States for movement between states was 2.8% (though there are some obvious problems of comparison, such as how to reflect the distances involved).

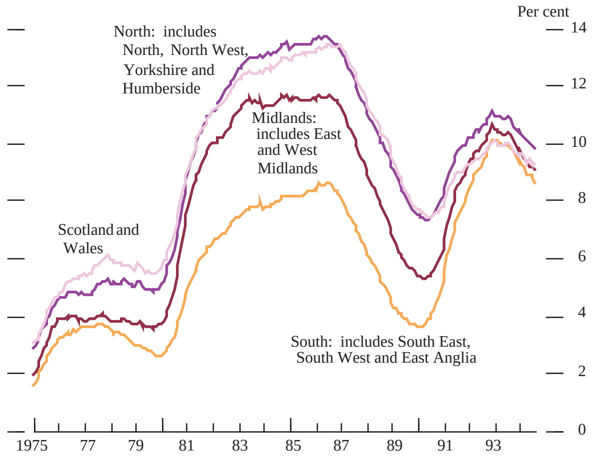
More detailed work shows that lack of mobility is a particular characteristic of the manual work sector in the United Kingdom: though it is largely manual workers who experience persistently high unemployment, the bulk of regional migration is by non-manual workers. The research suggests that manual workers in the United Kingdom are 5½ times less likely to migrate between regions than those in the United States; for non-manual workers, the US figure is only about 50% higher.[1] The lack of mobility seems to be associated with the form of housing tenure—council tenants have migration rates a quarter those of owner-occupiers.[2] There is a particularly high share of public housing tenure in the North—at 27.8%, compared with only 13.5% in the Rest of the South East.

If movement between regions does not play the principal role in the economy's response to regional differences in wages and unemployment rates, then the adjustment in the labour market must be by other means. This might be either through a reduction in real wages to preserve a given level of employment or, if real wages are rigid, through a reduction in employment.

Unemployment

Until the last few years, there was a persistent regional pattern in UK unemployment. The ranking of regions in Great Britain by unemployment rates between 1970 and 1988 was relatively stable: characteristically, the North had the highest rate and the South the lowest. Over the period, the West Midlands was the region whose relative position declined most. The chart illustrates the changes in regional unemployment over the period—which largely followed the

Regional unemployment rates in Great Britain(a)



(a) Weighted by workforce in each region.

cyclical pattern, though there was a greater dispersion in unemployment during the recession in the early 1980s.

Since 1988, however, there has been a marked convergence of unemployment rates. This convergence has been associated with an improvement in Scotland's relative position and with a worsening of the South East's. Indeed since 1992, the South East has had an unemployment rate higher than the UK average. To a large extent, this development has reflected the pattern of GDP growth and the nature of the latest recession—which was less concentrated in manufacturing than the previous one—and has not necessarily indicated increased mobility or labour market flexibility.

Earnings

At the same time as the dispersion of unemployment rates has narrowed, earnings dispersion has increased. This has been partly the result of changes to the pattern of earnings increases in different sectors. In the 1980s, relative earnings in financial services rose and this was reflected, for example, in the relative earnings of the South East. Generally between 1980 and 1993, the ratio of the highest regional average earnings to the lowest rose from 1.2 to 1.5.

Relating the lower dispersion of unemployment to the rise in earnings dispersion is not straightforward. First, regional labour immobility makes it unlikely that unemployment rates are converging because of migration flows in response to larger regional wage differentials. And second, while the greater dispersion of earnings may be associated both with a closer matching of pay to productivity and with structural changes in wage-setting—and so be evidence of greater flexibility—it may not specifically reflect stronger *regional* influences. It may be that the fall in unemployment dispersion reflects the industrial and regional impact of the last recession, whereas the rise in wage dispersion results more from structural changes in wage-setting.

(1) Source: Hughes, G A, and McCormick, B, (1987), 'Housing markets; unemployment and labour market flexibility in the UK', *European Economic Review*.
(2) Source: McCormick, B, 'Migration and regional policy'; Bowen, A, and Mayhew, K, (1991), *Reducing regional inequalities*.

Table F
Consumer confidence and spending[a]

1994	'Sentiment' index (b) April	July	Quarterly spending growth (c) April	July
East Anglia	12	9	1.1	0.5
East Midlands	12	13	0.8	0.5
North	4	4	0.5	-0.1
North West	10	10	0.9	0.4
Scotland	4	5	0.3	—
South East	19	19	0.8	0.6
South West	21	18	1.4	1.0
Wales	6	7	0.5	0.2
West Midlands	9	3	0.9	0.7
Yorkshire and Humberside	15	7	0.9	0.6
Great Britain	13.0	13.0	0.6	0.5

(a) Based on Gallup/BSL quarterly survey; covers 2,000 respondents.
(b) Index based on aggregation of a number of questions, including on consumers' optimism (past and future), inflation expectations, financial situation, major purchases and unemployment.
(c) Based on historical relationship between the survey results in the past and the change in consumer expenditure.

confidence is still fragile, business confidence is reported to be picking up a little in the northern regions as well.

Regional labour markets

As Table G shows, in the year to August unemployment fell in all regions. The largest percentage falls were in the West Midlands, North West, South East and South West. The dispersion in unemployment rates was low by historical standards during the recent recession (see the box on page 330); recently, it has diminished further. Unemployment rates in regions other than East Anglia, the North and Northern Ireland were between 8.9% and 10.8% in the 1990–92 period. By August this year, the range had narrowed to between 8.2% and 9.5%.[1]

Table G
Regional unemployment rates, August 1994[a]

Percentages in italics

	Unemployment	Change on one month earlier	Change on year earlier
East Anglia	*7.1*	-0.1	-1.1
East Midlands	*8.7*	-0.1	-0.9
Great Britain	*9.1*	-0.1	-1.2
North	*11.2*	-0.1	-0.9
North West	*9.5*	-0.1	-1.3
Northern Ireland	*13.0*	-0.1	-1.2
Scotland	*9.2*	-0.1	-0.6
South East	*8.9*	-0.2	-1.4
South West	*8.2*	-0.2	-1.3
Wales	*9.5*	-0.1	-1.0
West Midlands	*9.4*	-0.1	-1.6
Yorkshire and Humberside	*9.4*	-0.1	-0.9
United Kingdom	*9.2*	-0.1	-1.2

(a) The rates given are seasonally adjusted.

In the West Midlands, unemployment fell by 1.6 percentage points in the year to the end of August reflecting higher activity, though unemployment remains relatively high there (Table G). For the first time on record, Scotland's unemployment rate was below the UK average between January 1992 and July of this year—when it returned to the average.

While unemployment rates have converged, regional differences in the growth of nominal earnings have increased (see Table H). In 1993, earnings growth was lowest in East Anglia, at 1.6%—compared with over 5% in the South East, South West and West Midlands.

Table H
Nominal earnings growth by region[a]

	1981	1982	1991	1992	1993
East Anglia	16.5	8.0	8.7	8.5	1.6
East Midlands	14.8	8.8	9.3	7.1	3.0
North	13.9	7.6	9.9	9.0	4.0
North West	17.6	8.3	11.6	7.8	4.6
Scotland	16.8	9.6	8.4	8.6	4.7
South East	15.0	11.2	9.1	7.0	5.1
South West	15.5	8.7	10.0	7.3	5.1
Wales	16.0	7.1	11.1	7.4	3.7
West Midlands	14.3	9.1	10.8	6.4	5.1
Yorkshire and Humberside	15.1	9.5	9.4	7.2	4.4
Great Britain	15.4	9.6	9.8	7.4	4.2

Source: Department of Employment.

(a) Hourly earnings excluding overtime; percentage change on a year earlier.

These developments in regional labour markets are generally consistent with the picture on growth. The largest falls in unemployment have been in the South East and West Midlands—where activity seems to have picked up most—and this has been reflected in earnings growth. In the North, activity has also been strengthening, but the recovery began a little later. Employment there has increased marginally,[2] but unemployment remains above the national average, reflecting the long-term shake-out in traditional industries. Northern Ireland continues to have the highest unemployment, although the rate is falling; activity has changed little there over the last year.

Regional prices

According to the Reward Group's regional consumer price data, those areas with the strongest recent growth in activity have not—in all cases—had the highest inflation rates.[3] In the year to August, inflation was highest in Northern Ireland and Yorkshire and Humberside, and lowest in the South East and Scotland—see Table E. The range of regional inflation rates seen has not been uncommon over the last decade and there is considerable variation from survey to survey. The question of what determines the dispersion of regional inflation rates is an area for future research.

The Bank's Agents suggest that price pressures are weaker in the retail sector than in production. There are clear pressures on manufacturers—a view supported by recent survey evidence. Table J shows the inflation expectations given by the CBI Regional Trends survey and the Dun and Bradstreet survey of business expectations; both are of manufacturing firms. It is notable that the trends in the CBI survey point to subdued price expectations in the North West and Northern Ireland—regions where consumer price inflation appears strong—as well as in Yorkshire and Humberside and the East Midlands. Price expectations have increased significantly in the South East and East Anglia, though from a low starting-point. The Dun and Bradstreet

(1) There may of course be considerable disparities in unemployment within regions.
(2) For the United Kingdom as a whole, the Department of Employment data—with which this is consistent—have recorded falls in employment, while the Labour Force Survey data have recorded increases.
(3) The Reward Group's national consumer price index displays a close relationship with the RPI rate of inflation (excluding mortgage interest payments).

Table J
Regional inflation expectations[a]

	CBI (b)		Dun and Bradstreet (c)	
	1993	1994 Q3	1993	1994 Q3
East Anglia	9.3	21.0	-10.5	30.0
East Midlands	10.8	8.0	-2.3	28.0
North	-12.5	5.0	-6.5	21.0
North West	2.8	1.0	—	24.0
Northern Ireland	12.0	8.0	. .	. .
Scotland	6.3	3.0	-10.5	19.0
South East	6.3	17.0	-3.8	24.0
South West	3.8	5.0	-8.5	27.0
Wales	3.8	19.0	—	—
West Midlands	9.5	10.0	-6.5	27.0
Yorkshire and Humberside	11.8	9.0	. .	. .
United Kingdom	5.3	12.0	-20.0	25.0

. . not available.

(a) Based on CBI and Dun and Bradstreet surveys of percentage of respondents reporting an increase in prices minus percentage reporting a decrease.
(b) Refers to following four months.
(c) Refers to following three months.

survey points to an upward trend in price expectations in all regions,[1] particularly in East Anglia, the West Midlands and the South West.

Conclusions

The UK regions differ significantly in their cyclical patterns: activity is more cyclical in some than in others. There are, in addition, sometimes timing differences between regional cycles, though these tend to be marginal and there is little evidence of an enduring ‘leading region’. Negative equity in the housing market has had a sharper impact in some regions than in others. But the last recession and the current recovery have led to convergence in regional rates of unemployment, and regional growth rates have been quite similar over the last year or so.

A number of questions remain open for future work. What determines regional price behaviour? To what extent is a region’s performance dependent on its industrial structure and to what extent is there a pure ‘regional’ effect? How good are the available survey series as leading indicators of the actual path of activity?

In the current general economic recovery, the South is particularly buoyant, and the Midlands relatively strong. The strength of the South—and of the South East in particular—appears to reflect the presence of some of the relatively fast-growing manufacturing industries, such as electrical engineering, and the recovery in financial services. Unemployment has fallen in all regions. The regional inflation picture is quite difficult to interpret, but there are warning-signs in the form of rising inflationary expectations across the country.

The examination of regional developments is useful in forming a judgment of the national monetary and economic position. A good example is provided at present by the concentration of negative equity in the South East; changes in house prices in this region will have a substantial impact on the national picture. At present, all regions are growing and the recovery seems well-balanced.

(1) Too much emphasis should not be placed on the magnitude of changes in the balances in this survey, since it is relatively volatile. Its trend, however, is more significant.