

The current economic context in Coventry

Insight, Coventry City Council, November 2017

Summary

- The national economy is growing, as is the local economy, and is forecast to continue to grow but at a slowing rate
- Coventry ranks as the 8th best city to live, work and do business in the UK.
- Productivity growth in Coventry has been low and overall productivity has remained notably lower than the UK average
- There are signs that the number of jobs in the city is growing and Coventry demonstrated strong growth in resident employment levels in the last year.
- The gap between the local unemployment rate and the national rate has closed over the last two years.
- The labour market measures are positive in Coventry, and point to strengths in the local economy. However, there remain some challenges – lower than average productivity, a relatively low business stock, lower levels of qualifications when compared to the England average & lower than average wage levels amongst residents in work.
- However there has been recent improvements in these areas – the business stock has been growing well and the qualification levels of residents are on a trend of improvement.
- There are good prospects for growth in the local economy but there is uncertainty associated with the impact of the UK leaving the EU.

Growth

After strong post-recession growth it is predicted that the UK economy will continue to grow but the growth rate is slowing. At quarter 3 2017 the Office for National Statistics (ONS) estimated the annual growth rate of GDP to be at 1.6%.¹ The growth rate is lower than originally forecasted by the Office for Budget Responsibility (OBR) and they and other organisations have forecasted a slower growth rate between 2017 and 2018². The services sector, which makes up 80% of the economy nationally and has been consistently growing in recent years, has been driving GDP growth. The slowdown in the growth rate of the service sector drove the slowdown in the overall economy. A drop in real incomes due to increasing inflation rates may reduce consumer spending and reduce growth in the services sector. In summary the national economy is growing, as is the local economy, and is forecast to continue to grow. However, some commentators, in particular the Bank of England and the OBR, do not expect growth rates to reach pre-recession levels soon.

Coventry's post-recession growth rate in total Gross Value Added (GVA), a proxy measure for GDP at a local level, has been strong and higher than the national average. This has been assisted by significant population growth in Coventry. The city has been one of the fastest growing places outside of London over a number of years. Coventry is now the 9th most populous city in England, the 11th largest in the UK³.

The latest in the series of reports produced by PricewaterhouseCoopers (PwC) and Demos, "Good growth for cities 2017"⁴, measures the extent to which economic growth in UK cities works for all residents. As it has in recent years, Coventry ranks well compared to other UK cities in this regard. In their index, which uses factors such as health, housing affordability and quality of life, alongside jobs, skills, and incomes, Coventry ranks as the 8th best city to live, work and do business in the UK. Coventry has improved its score since last year's report but the latest report highlights that 'supply side constraints' such as infrastructure need to be addressed if all cities are to continue improving.

While the growing size of the city is a strength for the local economy, growth per head and growth in productivity are particularly important for the future health of the local economy. The lack of growth in productivity nationally since the recession is holding back the economy from growing more strongly. Labour productivity in the UK is lower than many other major economies. Growth per head in Coventry post-recession has been at a similar rate to the national average and productivity growth has been low, overall productivity has remained notably lower than the UK average. The most recent estimates show local productivity to be 14% lower than the UK⁵. The Centre for Cities recently published a report looking at the variation of productivity by place across the UK and found the cities outside of the South-East of England lag behind cities in the South-East⁶. The report identifies some of the basic causes of the geographical lag in performance. Many cities outside of the South-East struggle to attract investment in more productive activities. Coventry has a lower proportion of its economy employed in the most productive sectors and also the productivity of these sectors in Coventry is lower than in cities in the South-East⁷. Furthermore, unlike their counterparts, cities outside the South-East attract less higher-skilled components in these sectors. It should

¹ [Office for National Statistics](#)

² [Office for Budget Responsibility & PWC](#)

³ [Largest Cities in UK, Insight, Coventry City Council](#)

⁴ [Good Growth for Cities 2017](#)

⁵ [Source: Office for National Statistics](#)

⁶ [The role of place in the UK's productivity problem, Centre for Cities, November 2017](#)

⁷ [Centre for Cities chart](#)

be noted however that Coventry compares reasonably well in terms of productivity amongst other cities outside of the South-East, ranking in the middle.

Employment

There was strong growth in the number of jobs in the city post-recession but there were signs that this growth had slowed since 2015. In the past year however these signs are now pointing to jobs growth in the city again.

Since 2014 the number of residents in employment has been on an increasing trend, this was assisted by population growth. This trend has continued into 2017; Coventry demonstrated strong growth in resident employment levels in the last year. Both part-time and full-time employment increased but in the last year there was more growth in part-time work for residents than there was for full-time. The prospects for at least the short-term are for further growth in employment levels amongst local residents.

In recent years, while the total employment count amongst Coventry residents has been increasing, the employment rate amongst Coventry residents remained stable and consistently lower than the national average. Some of this gap is due to Coventry being home to a relatively high number of economically inactive full-time students; both local universities, Coventry University and the University of Warwick, have been growing in recent years. However, it is positive that over the last year the employment rate has started to increase as well, closing the gap with the national employment rate. The number of local residents in employment has been growing faster than the total working-age population of the city. An estimated 70% of working-age residents are in paid employment compared to 75% across England overall.

National unemployment is at its lowest level for a number of years. Equally unemployment in Coventry has been dropping over the medium term and in the last year, and is now notably lower than pre-recession levels. An estimated 8,700 Coventry working-age residents are unemployed, an unemployment rate of 5.0%, which is slightly higher than England's rate of 4.6%. The gap between the local unemployment rate and the national rate has closed over the last two years.

Economic inactivity was on a rising trend over the medium term post-recession but started to fall in 2015 and this has continued in the recent estimates. The increase was fuelled by an increasing number of economically-inactive students. Recent falls have been due to a drop in the number of economically-inactive students – it seems that recently more students have secured part-time work.⁸ Nationally one of the major reasons for the high employment rate is the low flow rate out of employment – firms are not making a lot of people redundant. In Coventry it appears there is currently a net flow from economic inactivity into employment as well.

Progress & challenges

The labour market measures are positive in Coventry, and point to strengths in the local economy. However, there remain some challenges: in addition to the lower than average productivity levels as described above, Coventry has a relatively low business stock; the working-age population have lower levels of qualifications when compared to the England average; the average wages of residents in employment is lower than the national average; and the number of workless households in Coventry is higher than the national average.

⁸ Source for Coventry labour market statistics: Annual Population Survey, Office for National Statistics

However, there have been improvements in some of these areas recently. The business stock continues to grow and is 36% higher than it was 4 years ago, which is a higher growth rate than national and regional averages. In addition, while Coventry still has a higher proportion of working-age residents with no formal qualifications, and a lower proportion with high level qualifications than the national average, these have been on an improving trend in recent years. This is assisted by the graduate gain conferred by the large influx of students to attend Coventry University and The University of Warwick. While Coventry experiences one of the largest annual influxes of students out of all cities, a report by the Centre for Cities⁹ highlights that the retention rate of graduates from local universities is low compared to other cities. The skills of the local labour force would improve further if this was addressed.

Despite recent improvements in Coventry residents' qualification levels¹⁰, skills shortages are a challenge that the local economy is facing; this is partly testament to the recent success of high-value manufacturing driven by Jaguar Land Rover (JLR). Businesses reported higher than average levels of skills shortage vacancies in the 2015 Employer Skills Survey¹¹. In a recent edition of the quarterly survey of local business run by the Coventry and Warwickshire Chamber of Commerce, skills shortages are highlighted as the biggest barrier to growth for local businesses¹². Locally there is demand for highly skilled labour and concerns that there are insufficient workers available.

The average pay for employees at Coventry workplaces has traditionally been higher than the average pay that Coventry residents receive. In recent years the latter has been increasing, closing the gap between the two figures. However the pay growth for employees in Coventry and for Coventry residents has been low in 2017¹³. Nationally growth in nominal pay rates have slowed and with inflation increasing, partly due to the weakening of the pound, real incomes are falling¹⁴. This small reduction in economic well-being appears to be worse in Coventry because growth in nominal earnings has been lower than the national average. This should be balanced against the fact that an increasing proportion of Coventry residents are in employment.

Future prospects

The UK economy is predicted to grow in 2018, at a moderate and slowing rate. The UK is due to leave the European Union (EU) in 2019 and this places uncertainty on any forecasts for the economy. As a result, while prospects for the Coventry economy appear to be good, they are partly dependent on the outcome of the Brexit negotiations and how the UK exits the EU. It is thought by many that Brexit will have a negative impact on UK growth, but as the impact of leaving the EU on the national economy is unclear the impact on Coventry's economy cannot be predicted. Brexit may have a negative impact, at least in the short-term, on growth and employment in Coventry.

The responses from local businesses to the Coventry & Warwickshire Quarterly Economic Survey quarter 3 2017 point to continued growth in the sub-region into 2018¹⁵. Businesses overall remain optimistic about prospects for the local economy, although business confidence

⁹ [The great British brain drain: an analysis of migration to and from Coventry, Centre for Cities, Oct. 2017](#)

¹⁰ [Coventry residents by qualification levels, Insight, Coventry City Council](#)

¹¹ [2015 Employer Skills Survey, UK Commission for Employment and Skills](#)

¹² <https://www.cw-chamber.co.uk/media/2934/ges-q1-2017-cw-results-final-doc.pdf>

¹³ [Source: Annual Survey of Hours and Earnings, Office for National Statistics](#)

¹⁴ [Office for National Statistics](#)

¹⁵ <https://www.cw-chamber.co.uk/about-us/policy/quarterly-economic-survey-current/>

as measured by this survey has been falling as a trend, which is likely to do with the uncertainty related to Brexit.

Economic analysis to inform the local area review of further education colleges brought together a number of economic forecast models to foresee the future job and skills needs for the area. This highlighted that employment growth across Coventry and Warwickshire was forecast to increase by between 21,000 and 28,000 workers by 2025. In total 207,000 to 208,000 workers will be required to cover replacement demand (those retiring or leaving) and new growth across Coventry and Warwickshire.

In addition to those jobs forecast by economic models which use using local trends and national policy, local level knowledge from the area review predict that an additional 44,000 jobs could be created in Coventry and Warwickshire as a result of Local Enterprise Partnership (LEP) priority sector growth, the development of the Friargate business area, High Speed 2 (HS2) construction jobs, UK Central and expansion of the Motor industry.

The Coventry and Warwickshire LEP Strategic Economic Plan (August 2016) sets out an aim to improve the competitiveness of the Coventry and Warwickshire economy, with a target of creating 94,500 new jobs by 2030.

Brexit

The prospect of these targets coming to fruition is not clear given the uncertainty associated with Brexit.

A recent report from the Centre for Cities¹⁶ speculates on how prospective reductions in trade with the EU will affect the economies of British cities. It is estimated that all British cities will be negatively affected, as measured by a reduction in GVA due to a predicted reduction in trade. The predicted impact in Coventry ranks in the middle of all British cities. Coventry's GVA is estimated to be 2.3% lower than it would have been after 10 years if the UK and EU do not immediately form a free trade area and the default situation is to trade under WTO rules. If the UK joins a free-trade area with the EU, it is estimated it would be 1.2% lower. There is uncertainty associated with these estimates and this report looks at economic impact in a relatively narrow way.

Looking at possible impacts of Brexit in a broader way, there are some reasons to believe that the impact of Brexit on Coventry will be more challenging than the UK average. The reasons include: the city is amongst the fastest growing places outside of London (fuelled by international migration); Coventry is home to two successful universities with growing numbers of foreign students (18,155 overseas students in 2015/16¹⁷); and the city has high manufacturing employment (which is likely to have a higher reliance on migrant workers and be impacted by any increases in costs). Exit from the EU may cause a reduction in locally available labour from the EU.

¹⁶ [Brexit, trade and the economic impacts on UK Cities, centre for Cities, July 2017](#)

¹⁷ Source: Higher Education Statistics Agency

Coventry's Economy — Headline Statistics November 2017	Coventry		Compared	Trend		Period
	Value	Rate	Difference to England average	Medium term change (last 3 years)	Change in last year	
Headlines						
Gross Value Added (£ per head)	£7.655bn	£22,165	▼	↑	↓	2015
Labour productivity — relative to UK (index, % of UK average)		86%	▼	↓	↓	2015
Gross Disposable Household Income (£ per head)	£5.017bn	£14,527	▼	↑	↑	2015
Employment						
Employment rate — residents	165,800	70%	▼	↑	↑	Jul. 2016 - Jun. 2017
Employment at Coventry workplaces (Job density)	198,000	0.76	▼	↑	↑	Jul. 2016 - Jun. 2017
Average weekly pay (full time) — residents	£536	-	▼	↑	↔	2017
Average weekly pay (full time) — workplace	£562	-	↔	↑	↔	2017
Businesses						
Number of active businesses	10,065	354.6	▼	↑	↑	2017
Annual business start-ups	1,820	64.1	▼	↑	↓	2016
Annual business closures	1,300	45.8	▼	↑	↑	2016
Skills						
Working age residents with no qualifications	22,600	10%	▲	↓	↓	Jan.2016 - Dec. 2016
Working age residents qualified to higher education level	76,800	34%	▼	↑	↑	Jan.2016 - Dec. 2016
Number of employees not fully proficient (skills gaps) (% of employment)	13,142	9%	▲	-	↑	2015
Number of hard-to-fill vacancies (% of vacancies)	1,726	42%	▲	-	↑	2015
Number of skill-shortage vacancies (% of vacancies)	1,399	34%	▲	-	↔	2015
Benefits						
Claimant count	3,930	1.7%	↔	↓	↓	Oct. 2017
Total out-of-work benefit claimants	21,470	9.4%	▲	↓	↓	Aug-16

Unemployment						
Unemployment rate	8,700	5.0%	▲	↓	↓	Jul. 2016 - Jun. 2017
Economic Inactivity rate	62,200	27%	▲	↓	↓	Jul. 2016 - Jun. 2017
Workless households — none in employment (% of households with any working age residents)	21,300	19%	▲	↓	↓	Jan. 2016 - Dec. 2016

	Coventry		Compared	Trend		
Coventry's Economy — Headline Statistics November 2017	Value	Rate	Difference to England average	Medium term change (last 3 years)	Change in last year	Period
	Employment by industry					
Manufacturing	19,000	12.0%	▲	↑	↔	2016
Electricity, gas, steam and air conditioning supply	800	0.5%	↔	↑	↑	2016
Construction	3,000	1.9%	▼	↓	↓	2016
Wholesale and retail trade; repair of motor vehicles and motorcycles	25,000	15.8%	↔	↔	↔	2016
Transportation and storage	6,000	3.8%	▼	↑	↔	2016
Accommodation and food service activities	8,000	5.1%	▼	↑	↔	2016
Information and communication	5,000	3.2%	▼	↔	↔	2016
Financial and insurance activities	4,500	2.8%	▼	↓	↓	2016
Real estate activities	2,000	1.3%	▼	↔	↔	2016
Professional, scientific and technical activities	13,000	8.2%	▼	↑	↑	2016
Administrative and support service activities	16,000	10.1%	▲	↑	↓	2016
Public administration and defence; compulsory social security	6,000	3.8%	↔	↓	↔	2016
Education	20,000	12.7%	▲	↔	↔	2016
Human health and social work activities	21,000	13.3%	▲	↑	↑	2016
Arts, entertainment and recreation	2,500	1.6%	▼	↑	↑	2016
Other	6,000	3.8%	↔	↑	↑	2016