

# City-REDI Podcast cast- GVA

## **Stuart Mitchell:**

Welcome to the City-REDI Podcast. This series of podcasts were inspired by the Birmingham Economic Review. The review is produced by City-REDI, University of Birmingham and the Greater Birmingham Chambers of Commerce. It is an in-depth exploration of the economy of England's second city and a high-quality resource for and research policy and investment decisions. This episode focuses on Chapter one of the review, which looks at the economy of Birmingham.

In the commentary for this chapter. Rebecca Riley discusses the release of lagging data like GVA, which gives us a better indication of the economic impact of COVID 19 than Real Time Data. But How useful is GVA to assess economic activity? What does and doesn't it measure? Are there better ways of calculating economic activity? Why has GVA been faltering in Birmingham and the West Midlands and how could we grow it?

Let's find out.

## **Rebecca Riley:**

Welcome to the City-REDI Podcast. In this podcast we'll be discussing GVA and what it tells us about the economy of Birmingham, the West Midlands and the UK. We'll also be talking about GVA as a metric for measuring economic activity. I'm Rebecca Riley, Associate Professor Enterprise, Engagement and Impact, City-REDI / WMREDI, University of Birmingham. And today I'll be talking to Professor Delma Dwight, Director of Economic Intelligence Black Country Economic Intelligence Unit.

Welcome, Thelma.

## **Delma Dwight:**

Thank you. Great to be here.

## **Rebecca Riley:**

As I say, we we're kicking off this session with a fairly simple question, but one that is constantly asked both myself and Thelma throughout our careers. What is GVA, Delma?

## **Delma Dwight:**

Ah, the million-dollar question. So many, many times asked. And difficult to understand really as a concept, but in the simplest terms, GVA stands for gross value adds. And what it does is it measures the size of a country's economy. And the issue is there's many terms that as you sometimes people talk about GDP, which is gross domestic product, which is similar.

But doesn't the variation between them is that GVA excludes taxes and subsidies of products, while GDP includes it. So there's three ways as well to measure GVA and GDP, which can complicate things. But I'll just talk through those three measures now and we can discuss the merits of each. So this might bring people back to their economic theory and university days.

One method is called the production approach. So that's the type of value of goods and services that are produced. So that's one way ONS gather collect these data from thousands of UK companies. But there's also the income approach. So we look at how they look at the income generated in the production of those goods and services. So that includes wages and profits and other forms of income earned by households and businesses.

And then there's the expenditure approach. So that's what everybody in the country has spent. So the one most familiar to me from my university days is expenditure approach. I think the Formula  $C + I + G + X - N$  is forever ingrained in my brain and even got me my first job. So it's interesting to understand the different approaches and then there's a balanced approach not to complicate things further, which is just the value of outputs minus the value of intermediate consumption.

And that's the one ONS use quite a lot.

**Rebecca Riley:**

Lot as it used to be the beginning of my career where you could only get certain ones at certain levels. There has been a lot of changes recently with ONS and what you can and can't get, and I'm just thinking is it worth recapping on what you can get or what geography?

**Delma Dwight:**

Yeah, and I think that that's one of the particular limitations. It's particularly for you and me working on those sort of granular, subregional, local levels. It's really hard to actually get that data at the geography you want. So one limitation is you can't get GDP by industry, so you can't get a sectoral analysis at a regional level, which is why people will use GVA more.

So it depends on sort of the measure and then the timeliness. So you have to have the national level is more is more frequent. But to get that good local authority, understanding by sector or even get locally, there has been, as you said, more developments. And ONS doing this significant transformation to really make sure we can get those faster indicators at the right geography but it takes a long time to get there.

**Rebecca Riley:**

So how can we actually use GVA within our like you say our our local development work and that comparison.

**Delma Dwight:**

Yeah. So it's a really helpful involve when we go on to discuss some of the limitations. But actually when you're trying to understand the performance of a region and how it compares nationally or

indeed globally, having a sort of overall measure that everybody reports on, it enables you to give that sort of comparison benchmarking. So it does enable some comparison across economies.

So that's really useful when you're trying to understand to make the the evidence case for perhaps need or intervention to try and understand what perhaps the performance of a local economy isn't on par. So actually having that as an indicator, we find it really useful.

**Rebecca Riley:**

And in terms of how we can use GVA, any. Many, many moons ago when I was doing training on GVA and one of the things that came up time and time again is because the income approach was at the time the best available at the local level. That's very much driven by the incomes and salaries of people. And that may actually be the therefore the way that the the data sets is constructed affects the performance of the data set. And how does how does that affect our understanding of what response is all interventions should be made versus is balancing off that the measurement effect.

**Delma Dwight:**

Yeah and then understanding that's use of the income approach you've got. Then the whole issue of commuting, the whole workplace versus residence place again, you know, there might be people earning high salaries in particular areas of the Black Country, but actually then returning to the leafy suburbs of Staffordshire. And so actually the income generated by the people living in those areas is very different. So again, you can have a distortion in terms of what's been measured where.

**Rebecca Riley:**

So bearing all those things in mind and sort of I suppose one of the one of the issues is that originally it was developed in the 1940s as a production measure, wasn't it? And we have had a lot of changes and updates to that. But fundamentally that that that's where it comes from. Bearing all those things in mind, how useful do you think it is now?

**Delma Dwight:**

Yeah, I think now it needs to be incorporated within a broader basket of indicators. I don't think you can use that as the ultimate only measure. I think alongside the economy's change in significant has to the importance now the service industry again how that is really accurately measured in those sort of traditional senses is really difficult. So I think it's a useful one, but as part of a broader range, to really understand alongside everything else and say earnings, employment, migration together, then it's broader context, I think.

So it's a useful measure on the economic report we do. It's always within our analysis and understanding, but I don't think it always tells the full picture, does it? And that's really important. Then what your what you're dividing them by what is there is a population. Are you trying to get a sense of the gross value added per hour to try and get a sense of productivity?

So again, this sort of denominator plays an important part as well, whether using it as a total or actually whether you are sort of designed in it to try and get a different sense of it.

**Rebecca Riley:**

When you mentioned before as well with the sectors issue, I mean, this is one that has plagued us for a very long time and people want in sectoral GVA and I'm old enough to remember when things like IT and consultancy weren't in the sectors and there was a big review in the 2000 that brought them back in, all four of them originally.

And I think way back in that position again where those those sectoral SIC codes don't match the real economy. So I what's the best way of tackling that do you think.

**Delma Dwight:**

Yeah, there's been some on the well as we've seen with the new developments in AI and new approaches, those different ability to count companies and classify it, how we get more sort of real time industrial classifications, the traditional sort of SIC codes, your standard industrial classifications, as you say, they need to really move with the times and adapt and understand that a business is quite fluid in terms of being across the whole supply chain.

And just because it's in manufacturing doesn't mean then, but it's supporting a whole range of service sectors as well. So looking I think constantly reviewing the methodology, looking at what the new economy is and how you can actually get beyond those traditional approaches. So I think the new hopefully the new approaches to data gathering, modelling, AI might help us move on.

But, you know, it's very complicated in terms of trying to you know, the ONS surveyed thousands of businesses to try and get some sort of estimate, but even a lot of time relying on companies has data. It's only as good as what the company inputs. So again, you have to be reliant on people understanding what activity they do and what sectors they're in.

So, you know, it's trying to get as reliable as possible.

**Rebecca Riley:**

Thinking about and thinking about the sectors, etc.. But what does GVA not measure?

**Delma Dwight:**

What does it not measure? So yeah, I would say probably it's sort of in terms of those, those broader things, it doesn't really tell the whole story of how well economies are doing. So not all that can be counted, counts. So caring for an elderly relative is a good example of that because there's no money exchanging hands, so it wouldn't be captured.

But there's a lot of so that intangible stuff. And also what's really important to note, things that could raise GDP that wouldn't necessarily make a country better off. For example, there's more going on. A lot of money is being spent, but GDP goes up for, say, a large chunk of the Amazon

rainforest was cut down. You get a sharp rise in GDP from the sale of timber, at a huge environmental costs.

So it's trying to understand it in that broader societal and environmental impact, it's good for the economic side, but now it needs to be understanding terms of the wider, wider context. Doesn't it?

**Rebecca Riley:**

I mean, I think the the big one for me when I'm talking to people is it's not actually a measure of wealth. So we often use it as a proxy that the people within an economy doing well, but the reality is GVA, GDP does not measure the standard of living and it doesn't measure a whole host of other income such as pensions.

So it doesn't show an older population as we have that contributing to the economy. It would be an indirect way of contributing rather than the direct income from pensions or other unearned income. So I think for me, it just totally goes back to what you said before about having a basket of indicators. But unfortunately, people tend to use it as the be all and end all on.

It's only a thin sliver, sliver of what is actually happening in the economy. I suppose the other thing it doesn't measure is some of the intangibles. So the human gains from innovation, unless that feeds through to your salary or unless it feeds through to profit within a company, it's never it's never going to be really captured in the human side of that.

The in the life affirming activity that you might do within your job, unless it translates into something that can be measured, doesn't get doesn't get put into the these types of indicators. So do you think there are any better ways of measuring the economy?

**Delma Dwight:**

Yeah, I think that's been progress. I would ask themselves have started to collect data on those sort of broader measures of personal and societal well-being. So things like health, relationships, education, skills, what we do where we live, our finances, the environment. We've got other organizations looking at metrics about wellbeing and happiness and I think the UNESCO's sustainability goals also provides that useful framework.

Again, we're back to the sort of basket of indicators but understanding this is safe names actually for us, disposable household income after housing costs as well was really important. I think particularly understanding the cost of living crisis and actually how much tangible money people actually have and also what is going on in the business space, what is the survival of the insolvencies, you know, so I think there's a whole range of other things to be born into effects there.

**Rebecca Riley:**

Yeah. I mean, I think what's interesting to me is in the sort of the GVA GDP, you can see real disparity between places, big gulfs really between effectively in the south, southeast and the north. Whereas if you use something like GDHI, that gap narrows, because of those cost of living issues and the high, high costs of rent and mortgage within within places like London in the Southeast, the actual disposable income starts to narrows.

The gap narrows in terms of our overall GVA performance. As we know, sort of GVA is faltering at the moment. And whereas so specifically in the West Midlands, it was doing exceptionally well before pandemic. Why do you think that GVA is now faltering?

**Delma Dwight:**

For many reasons. We know that everybody and particularly has been hit hard over the last few years in terms of which has a lot of externalities, everything from covid and wars and the cost of living energy rises. So there's a lot going on. But really when you look at the demographics, that plays quite a large role. We've got a large profile of young and old, the dependent population, that lower active labour market and fundamentally a lot of it comes down to skills.

So skills has always been particularly in the West Midlands when we look at the amount of people that have those qualifications compared to elsewhere it's always been quite a significant barrier. We've had some huge, huge gaps with one in four people being reported as not being able to read or write. So that's a considerable drain, particularly when you look at infrastructure, the need for digital skills.

I'm broader than that. Energy in particular I think has been something that's hit the region really hard. When you look at the size of the business make up and the manufacturing and then the dependence on the energy costs. We've had some live examples now of companies just having to move overseas because their energy costs have gone up 40% and they just can't sustain staying in the Midlands anymore.

So there's a huge range. And then you've got how innovation, trades, decades of investment in transport infrastructure. So whole range of sort of barriers that have been sort of always there have been impacted even greater I think in the last few years and really impacted on the region.

**Rebecca Riley:**

When we were about to release a report on the productivity in the in the West Midlands Combined Authority area by looking and decomposing the elements of productivity. One of the, one of the key things for me that comes out of that report is the issue that we actually have in terms of the balance of sectors. We have highly productive sectors in the region.

However, within those sectors we have a lot of firms that aren't as productive as they could be. And I think there is always a and this happened in the in the 2000, there is always a danger that in pursuing sort of service industry, you forget about your core assets, especially when for the West Midlands they stacked in our favour those companies that that could be much more productive than elsewhere.

So I think that is a particular challenge for the West Midlands. More than more than other regions are probably a midlands wide issue if you looked at the data. But how do you think our particular sector make up the under normal conditions would be an advantage? How would they be in affected and could affect us into the future?

**Delma Dwight:**

Yeah, we have. When you look at the sectoral composition, we've got a really high energy intensive sector. We've got a lot of mentioned manufacturing, but we've got a lot of businesses compared to elsewhere and they've really been hit by the costs. So their import costs and alongside the supply chain shortages as well, you have companies, so they have staff turning up but because some semiconductor components aren't, they have to send them home. So the productivity has just been sort of hugely impacted. So we're having that sort of production sector. And while it gives huge benefit, as you say, huge employer and we've got some really innovative firms in the Midlands, but making them all understand the importance, as I say, of their continued investment and invention, innovation, new technologies and having access to that skilled labour force is really important for them.

**Rebecca Riley:**

And finally, having looked at that sort of the faltering negative side of GVA, what's your thoughts on how we can grow GVA and productivity in the future?

**Delma Dwight:**

We can solve, between us single-handily, how we can solve the Midlands economy well. So investment is critical. Isn't it? How we can get that attracting that sort of a large company, that FDI? You know, that's why it's so important. Those global events like Commonwealth Games and how we can raise the profile and really make the region seen as a place that people want to live, work and invest in.

But that is critical. Having that sort of active economy, having people wanting to invest investment is key for the growth of the region. So really getting the conditions right. So having, as I say, a skilled labour market is having the right housing profiles, having the right transport, having all those enablers in place so that we can attract that investment, I think is key.

And also focusing on trade also is a huge thing for the Midlands. We've had a real hit in terms of our exports over the last few years and then they were back to where they were three years ago. So really understanding the export potential of companies that would have a real impact as well.

**Rebecca Riley:**

I mean, I agree with all of that. I think I think particularly in the in the sort of the Midlands, West Midlands, there's also about that issue of of working age population and highly skilled labour, which which is still lagging other, other areas. And I think one of the one of the problems with that actually is that we we do especially in the West Midlands, have a high student population, but we don't retain them.

So I think there is something about, as you picked up about Commonwealth Games etc. is ensuring that we're pursuing policies that enable the people, you know, the people that live here and have been brought up here and are skilled here as well as those that have moved in to gain those skills at the universities or FE etc., that they know that there are good quality jobs.

So I think there is something about, you know, engage, engaging and having a a and a process where we can make sure that young people know that there are really good quality jobs, especially in the in

the manufacturing and the work that we've done before. The business and professional services sector, which is actually a third of our GVA and the third of our economy.

So I think there is there's a piece of work that to be working with our students. I think.

**Delma Dwight:**

Yeah, I'm definitely having that in the context of that quality environment. So it's a place, you know, investment in the creative and the culture. So it's a place that people want to live. They know if they have children, they'll be able to access good schools, they'll have good houses as the transport infrastructure, the digital connectivity. So making it a quality place I think is really important and an inclusive place as well.

You know, with such a diverse population, ensuring that we can support all that growing population is really important.

**Rebecca Riley:**

On that note and inclusivity, which I agree with completely and it is vital for us to maintain a thriving community in the West Midlands. I'd like to thank you for your wise words as ever. I'm sure it will continue to be a question that we get asked. I know we have a podcast that we can just point people to, so thank you for the chat.

**Delma Dwight:**

Thank you very much.