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# MANCHESTER INDEPENDENT ECONOMIC REVIEW

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## MANCHESTER BRIEF

MIER Roadshow, 13<sup>th</sup> February 2009

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## **Introduction**

### **What is the Manchester Independent Economic Review (MIER)?**

The Independent Review consists of a Commission of prominent economists and business leaders, supported by a secretariat, with responsibility for commissioning high quality evidence-based research to inform decision-makers in the City Region, as well as maintaining an up-to-date, detailed, economic baseline study for the MCR.

The Review is a 12 month programme of research, run independently of the Government and its agencies in Greater Manchester and the North West. It has commissioned impartial studies which address growth in the City Region and also the questions about how growth in the regional centre relates to the rest of the region, and how to ensure that innovation-based growth will benefit the Regional and UK economy, as well as the City Region.

The MIER consists of six 'Core Projects' (plus a Review of the Daresbury Science Campus and its impact on the UK, NW and MCR economy), looking at a different aspect of the MCRs economy. Each project is designed to draw upon the work of 'Leading Experts' who have designed innovative, intellectually robust, and challenging studies that will extend partners existing economic intelligence base.

### **Why do we need the MIER?**

The Manchester City Region (MCR) has a unique combination of opportunity and need. Its scale and potential make it the natural capital of a rejuvenated North. However the fragility of its economic base remains evident and a further and concerted effort is now required to identify the steps (and potential policy choices) the private and public sectors working together need to take to fulfill the City Region's full potential.

This is an exciting but challenging time for Greater Manchester; it's City Region and the North West. We are faced with meeting the challenges of growth in a sustainable way, securing the investment that will make this possible, and implementing a number of infrastructure and other projects that are critical to the future success of our Region; all whilst experiencing a severe slowdown in the national, and indeed global economy. The increasing fragility of the national economy, set against an increasingly competitive globalized economy, means that developing a clear evidence base for effective policy making has become increasingly important.

The strategy and priority actions outlined in existing strategy represent an excellent start to growing the MCR's economy, which is already starting to see positive outcomes in the growth witnessed by its key sectors. Building on this foundation, a vital opportunity has arisen offering the chance to reinforce the message to Government, key agencies and the private sector. It will allow us to show that we have *the* best independent research and intelligence and thus unequivocally prove that only the MCR has the combination of assets outside London to achieve the scale of growth required to meet the goals of the Northern Way.

The Manchester Independent Economic Review is an authoritative and high profile independent review, drawing in researchers of the highest quality and developing the evidence base for the MCR. It will be a clear signal of serious strategic commitment to enhancing the growth momentum in the region as the UK's second 'growth pole'.

The Review will enable GM's political leaders to set long-term economic strategies, understand economic priorities and make key choices. The final output of the Review will be a high profile report setting the strategic vision for the City Region, encompassing key economic narrative and positively affecting expectations.

Preliminary findings of the research highlight the importance of cities to national economic growth and the importance *within* cities of:

#### **Successful governance, leadership and collaboration:**

- Viewing Manchester's economy as a cohesive whole which needs policies implemented in close coordination
- Continuing successful collaboration and partnership between government and business community is vital, as is developing the Multi-Area Agreement (MAA), Greater Manchester Strategic Plan (GMSP), and success of the AGMA Commissions

#### **People and places matter:**

- Importance of strong and successful communities
- Enhanced importance of the interaction between places and people
- Skills and employment create greater career choices and prosperity
- Shared urban assets and effective public services help to attract people and businesses
- Quality spaces; natural and built environment to support sustainable growth

#### **Scale is important:**

- Bigger + effective density = Better (agglomeration economies), but needs investment and careful management
- Job opportunities - better at the margin and feel better to be linked to a growing place.

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## **Economic Context**

- *After years of strong growth, the world economy has experienced marked deceleration towards the end of 2008. The challenge is to make sure that the City Region's diverse knowledge economy is able meet the demands of this current economic crisis and even become stronger and more dynamic through it. Beyond the short-term, partners must continue to plan strategically for long-term growth.*

## **UK**

- The UK is now in recession, as the credit crunch and a significant slowdown has developed not only in the UK services sector, but also in both consumer spending and UK business investment.
- In 2008, housing market activity fell significantly and house price inflation eased rapidly.
- In the currency markets, sterling has weakened considerably. The pound has now also significantly weakened against the dollar.
- Long-term economic drivers include: demographic and socio-economic change; globalisation; innovation and technological diffusion; increasing pressures on resources and global climate.

## **Northwest**

- Since 2000 the growth gap between GVA in the Northwest and the UK has narrowed - but the GVA per head gap with the UK average has remained stable at around 12 to 13 percentage points.
- Before the current economic slowdown, the region saw significant growth in the number of employees (+221,000 between 1999 and 2004 alone). However a significant number of ancillary jobs and similar have been created, putting downward pressure on productivity levels (in the short term at least).
- Indeed, productivity levels in nearly all service sectors in the Northwest remain below the UK average, and there is considerable potential for the Northwest to grow in the long-term.
- As is the case nationally, current economic conditions are set to put downward pressures on growth in the Northwest, with unemployment rising and business conditions worsening.

## **Manchester City Region**

- The City Region is the main driver of the regional economy and home to a population of over 3 million residents (47% of population in the NW). Almost 90 percent of the net increase in the NW population, and almost half (48%) the net increase in the Northwest's employment, were related to MCR's growth in the last decade.
- The City Region generates 50 percent of the Northwest's total economic output and is continuing to develop as a major centre of knowledge intensive industries.
- Despite significant growth over the last decade, the annual GVA growth rates between 1999 and 2004 in the MCR (2.4%) and GM (2.5%) are both lower than the UK (2.9%), although this masks significant differences in GVA between City Region districts.
- Recent surveys of businesses suggest confidence in the profitability of exporters in the Northwest and GM has decreased markedly in 2008, with local companies signalling low confidence levels, and a decline in investment intentions.
- The service sector witnessed a considerable fall in the number businesses reporting increasing sales and orders in 2008, accompanied by a fall in the proportion reporting growth in export sales.

## **Business**

- *Manchester City Region has a strong business base but there are clear structural changes across key economic sectors, which should be of interest to policy makers. Looking ahead at future competitiveness, the all important knowledge economy looks strong but there are still a number of challenges that need to be met.*
- *Manchester is the economic engine of the Northwest, with a concentration of people and business activity without parallel in northern England. The key challenge lies in better connecting all residents of Manchester to the benefits and opportunities that this strength brings.*

### **Business base**

- Despite the fact that the relative rate of growth in registered businesses in Manchester has been slower than the GM, regional and national averages over the last decade, Manchester has by far the highest stock of VAT registered businesses in Greater Manchester.
- As elsewhere, the vast majority of these businesses are small (1-10 employees) to medium (50-199 employees) sized businesses. However, Manchester does still have the highest proportion of large and medium-sized employers in GM. The proportion of large employers in Manchester is well above GM, NW and national averages, and the proportion of small businesses (1-10 employees) is well below GM, NW and national averages.

### **Business density rates**

- Despite having a stock of VAT registered businesses higher than any other GM district, Manchester also has a population also well above any other GM district. As a result, the stock of businesses per 10,000 of the population is below the GM average. Furthermore, the concentration of VAT registered businesses per 10,000 of the population has been falling over the last decade as Manchester's population grows.
- The very high concentration of both businesses and people reflects Manchester's attractiveness as a location to do business and work. Indeed, Manchester has become one of Europe's most exciting and dynamic business cities.

### **Knowledge Intensive Businesses**

- There is a high proportion of employment in Knowledge Intensive sectors in Manchester when compared to other GM districts and areas of the Northwest.

### **Innovation**

- There are a lack of metrics to inform on innovation at a city region level, let alone district level, however surveys show that Northwest businesses are more likely than the national average to be innovative and have higher levels of expenditure.

### **Key Sectors**

- Manchester has a relatively strong and diverse economy. However, Location Quotients illustrate the particular importance of particular sectors, including Financial and Professional Services, Logistics, Creative / Digital / New Media and the Public Sector in the borough, with levels of employment in these sectors above national averages.
- Financial and Professional Services is the sector that has seen by far the greatest growth over the last decade, illustrating the increased importance that the 'knowledge based-economy' has began to play in Manchester's economy.
- Despite the recent economic downturn, which has particularly affected certain financial and business services, forecasts show that Financial and Professional Services will be key to the GM, and Manchester economy, in the medium to long-term, and will play a crucial part in driving the recovery.

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## People

- *People are at the heart of any economy. A growing population with the right skills base should help secure the City Region's future. But Manchester and its surrounding areas are changing. The growth of the knowledge economy has increased the demand for highly skilled workers. The challenge is to see that this demand is met, whilst also tackling problems of inequality and high levels of social exclusion, in order to maximise the area's potential.*
- *Despite a relatively young, large and growing population, Manchester still has a legacy of low skill levels and worklessness in many communities across the city.*

## Population

- The Manchester City Region (MCR) has a population of over 3 million people, with an age profile that is younger than the UK average.
- In total, almost half a million people live in Manchester, and there is a significant travel-to-work population that commute in to the city-centre daily. Indeed, as long ago as 2001, almost 100,000 people commuted in to the city from other MCR districts alone. Furthermore, Manchester has a rich mix of people from different communities, cultures and faiths – a significant asset in terms of fostering a dynamic and culturally attractive place to live and work.
- Manchester has a proportionately much younger population than other GM districts, due in part to its large student population and city centre location. This is a significant potential asset to the local economy.
- However, as with the rest of the conurbation (and indeed the country as a whole), Manchester is expected to witness a proportional rise in its elderly population between now and 2017.

## Economic activity and employment

- Manchester's employment rate (60.4%) is significantly lower than the GM average (71.0%), NW (72.1%) and significantly lower than the UK average (74.4%), although this figure is influenced significantly by the presence of a large resident student population in the district.
- Unemployment rates in Manchester are consistently higher than regional and national rates. Manchester has been classified as the fourth most deprived nationally (using the local concentration measure).
- Workplace based productivity figures illustrate that there is a concentration of high-value productive jobs in Manchester, as GVA (£40,900 per employee) is comparable with UK levels (£40,400 per employee) and above GM (£37,100) and NW (£36,100) averages in 2008. The greatest challenge remains in better connecting all residents to the benefits and opportunities this strength brings.
- It remains to be seen how the recession will affect economic growth in Manchester, in terms of employment and in GVA. However, unemployment and benefit claimant rates have risen through the latter part of 2008 and indications are that they are likely to continue to do so in the near future across the country.

## Earnings

- Despite significant economic progress in the city over the last 15 years, Manchester continues to suffer from comparatively low levels of income and severe levels of deprivation amongst its residents. Although deprivation reduced at a faster rate than elsewhere between 2005 and 2008, this only moved the city from the third most deprived district in the country to the fourth.
- Narrowing the gap between resident and workforce earnings has been identified as a priority directed by the Manchester Board., with sustainable progressive employment seen as the best way to increase earnings across the district.

## Qualifications and skills

- The occupational structure of MCR reflects the changing industrial structure of the City Region, with the movement towards knowledge intensive industries.
- Despite having a high concentration of university students and a higher proportion of residents than GM, NW or national averages that are qualified to degree level and above, Manchester also continues to have higher proportions of residents with no qualifications.
- Both in primary and secondary phases of education, levels of educational attainment reached are below national averages, most importantly in the core subjects of English and Mathematics. In 2007, over half of Manchester's secondary schools were below the government target of having 30% of pupils achieving 5 or more GCSEs at Grades A\* - C, including English and Maths.

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## Place

- *Manchester has proven that it is one of Europe's top destinations for business and lifestyle offer. The massive investments in its infrastructure have helped boost the cities appeal for investors, visitors and workers alike.*
- *The city is ideally located at the centre of the most significant economic area in the north of England, with a rich and diverse economic and cultural offer and easy access to the countryside and lifestyle offer of the surrounding region.*

## Industrial land

- Strategically, Manchester is located at the heart of a large and successful economic geography. Although traditionally a manufacturing centre, the city has seen significant restructuring over previous decades and is now a predominantly service based centre.
- Industrial and warehouse land values have risen steadily in Manchester over the last decade or so, remaining above GM averages and only below the levels seen in Stockport and Trafford.
- However, developers remain cautious about industrial and warehouse property, with sustained price slowdowns predicted in the current economic climate.

## Commercial property

- GM has UK's largest office market outside London, and this commercial offer is concentrated in central Manchester, Salford Quays, Trafford and South Manchester.
- With significant changes in the structure of the city-region economy over the last decade or so, business sectors now dominate the commercial property market in the city centre, with the development of Spinningfields and Piccadilly adding to the supply of Grade A office property. These developments are part of a visible effort to make Manchester a desirable location for companies, such as Bank of New York (Piccadilly Gardens), to relocate to.
- The sectors with the biggest presence in the Manchester office market are Business, Professional and Financial Services sectors, accounting for almost two-thirds of total commercial property take-up. The public sector and manufacturing sectors have a notably smaller presence than other GM districts, highlighting the success that the city centre has had in restructuring and growing its economy over the last decade or so.
- Furthermore, outside of the city centre, the South Manchester Strategic Regeneration Framework has been put together to provide a basis for the long-term development of the area over the next 10 to 15 years, whilst New East Manchester Ltd is one of the first established Urban Regeneration companies which has been put in to place to help regenerate the area.

## Retail market

- Manchester is a major centre of retailing in the Northwest and is regarded as England's second city from the perspective of regional and national retailers.
- The city remains a beacon of retailing in the region, being one of the largest centres for retail outside of London and ranked second only to Glasgow in terms of its offer.
- The city centre's retail offer includes major national retailers on Market Street and in the Arndale Centre, as well as the more up-market and boutique offer of the Triangle Centre, King Street, Deansgate and the northern quarter. Manchester's retail offer has been significantly bolstered since 2006, with the opening of the Arndale Centre extension leading to continued activity on the traditional prime patch of Market Street.

## Residential offer

- In 2008, overall house prices in Manchester (£115,700) remained below GM (£130,200) and regional prices (£133,600), and below national averages (£179,400). Property prices in Manchester remained amongst the lowest of GM districts, and despite strong increases through the early part of the decade, prices have fallen significantly in the latter part of 2008, and in to 2009, at both a local and national level.
- Housing in Manchester is more affordable than in GM as a whole, with house prices in 2007 being just under three and three-quarter-times that of income (3.72, GM: 3.96) on average.
- It must be noted that average prices may mask significant areas of deprivation within the district. *Work from the MIER Project 6: Sustainable Communities seeks to shed further light on the nature of these deprived neighbourhoods.*
- The MIER Project on Sustainable Communities has found a mix of "isolate", "transit", "gentrifier" and "escalator" neighbourhoods within Manchester. Although the presence of 'escalator' and 'gentrifier' neighbourhoods can be seen as a positive, there appears to be a particularly large presence of 'isolate' areas in the district. This is of particular concern to policy makers as isolates are associated with a degree of entrapment of poor households who are unable to break out of living in deprived areas. Isolates also have a disproportionate percentage of neighbourhoods with high social tenure.

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## Endnote

The majority of data included in this report is collated from the Manchester Independent Economic Review (MIER) Economic Baseline (available to view and download at <http://www.manchester-review.org.uk/economicbaseline/>) and data from the Greater Manchester Forecasting Model (GMFM). Other sources of data include Manchester's Local Area Agreement (LAA) 2008, some preliminary findings from the MIER projects (to be published in due course), and other publicly available economic development documents. For any questions relating to this document please contact Alex Cole at the MIER Secretariat:

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