

# 1 The economy

## 1.1 Recent developments

### 1.1.1 Output in the UK

**UK GDP growth eased to 1.9% in 2005**, among the least buoyant outturns since the recession of the early 1990s. Nevertheless, this was a respectable performance in the context of previous cyclical slowdowns and the adverse impact on the labour market was modest.

**The key factor underlying the slowdown was an easing in consumer spending.** After almost a decade of exceptionally strong growth averaging 3.6% a year, spending in 2005 increased by a modest 1.4%. A cooling housing market, higher interest rates and subdued income growth combined to dampen spending to its slowest pace since 1992. With consumer spending accounting for two-thirds of GDP, it was inevitable that overall growth would slow, but solid increases in government spending, business investment and an improvement in export performance – relative to imports – ensured that GDP growth remained near 2%.

**Manufacturing returned to recession** following a mild upturn in 2004, again failing to capitalise on a buoyant global economy. Weak growth in the key euro zone markets led to contraction of 1.0%. But the service sector remained on a healthy growth path, led by strong growth in Financial & Business Services (+5.9%) and Transport & Communications (+4.1%).

**Towards the end of 2005, there were clear signs of strengthening consumer activity.** Household spending picked up in the final quarter to register expansion of 0.8% (q-on-q). Despite a modest outturn in 2006Q1, the momentum was regained in 2006Q2, boosted by stable interest rates and a reviving housing market. In the first half of the year, the level of consumer spending was 1.9% higher than in the same period of 2005.

At the same time, **business investment has remained buoyant**, growing at an annual rate of 4.8% in 2006Q2. Investment intentions have been strengthened by an upturn in manufacturing's fortunes in line with recovery in the euro zone, where GDP growth in 2006 is expected to exceed 2% for the first time since 2000, and by the continuing healthy outlook for the service sector.

**The impact of net trade on GDP growth has become difficult to gauge** in the light of changes to trading patterns associated with VAT MTIC (Missing Trader Intra-Community) fraud. This inflates both exports and imports. Unadjusted data for 2006Q2 show volumes up almost 20% on a year earlier. However, official estimates of export growth excluding MITC also show impressive growth. Over the year to 2006Q2, total exports are estimated to have grown by 8.5% boosted by a 9% increase in sales to the Eurozone. However, stronger consumer demand and a modest revival in manufacturing output are boosting import growth, estimated at 8.4% excluding MTIC.

The net result of these estimates is that growth in domestic demand and GDP are almost identical. **GDP growth in each of the four quarters to 2006Q3 has been 0.7%, a healthy rebound from last year's slowdown.** The contribution of government spending to growth is waning as pressure on public finances mounts. The main driver of activity remains private sector services, notably Financial & Business Services where growth in the year to 2006Q3 was 5.2%.

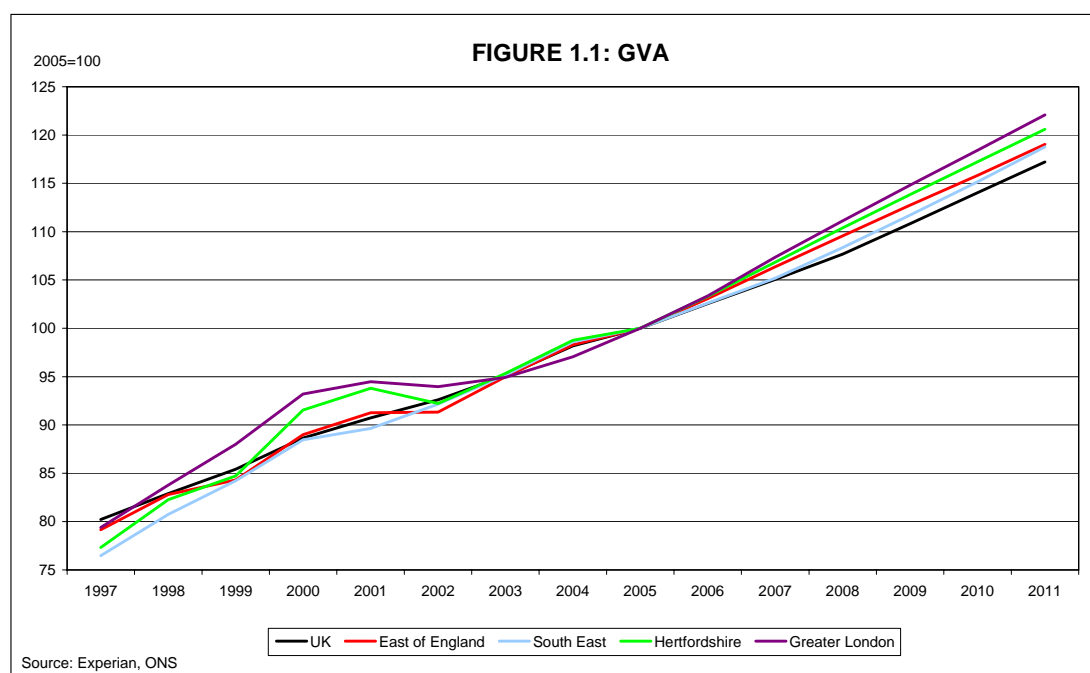
### 1.1.2 Output in the East of England and the South East

In the **East of England**, following two years of buoyant growth at well above the national average, Gross Value Added (GVA, see glossary in Annex for definition) expanded by a modest 1.7% in 2005. However, the impact of the national slowdown was significantly less than in the previous downturn, in 2002, when the East of England suffered seriously from the effects of the global technology slump, and GVA stagnated. The dip in growth last year was primarily due to the loss of momentum experienced by private services, in particular Distribution, Hotels & Catering which was hit hard by the consumer spending slowdown, and output contracted slightly. Outside services there were mixed fortunes. Manufacturing relapsed into recession, but construction posted strong growth. Recent data suggest that the region is recovering strongly in 2006, boosted by positive trends across the service sector and a mild upturn in manufacturing.

The **South East's** economic expansion was disappointing in 2005 by the high standards of the previous decade. The pace of GVA growth slowed to 1.4%, well below the UK average, undermined by declines, albeit small, in manufacturing and construction output, and in Distribution, Hotels & Catering which, as in the East of England, was hit hard by the consumer spending slowdown. While Financial & Business Services continued to expand strongly, with growth of 5.2%, and Transport & Communications posted growth of over 3%, this was insufficient to outweigh the impact of contraction in other sectors. Recent data have been encouraging, with the South East estimated to be pulling slightly ahead of the UK's GVA upswing in the past three quarters. A key factor in this revival is the performance of Distribution, Hotels & Catering, which is returning to healthy growth amid stronger consumer spending in 2006.

### 1.1.3 Output in Hertfordshire

**The soft patch in activity of 2005 was even more evident in Hertfordshire than in the East of England and the South East.** GVA growth slowed from a buoyant 3.6% in the previous year to 1.3%. A sharp fall in output in the county's important paper, printing & publishing industry, which accounts for 15% of manufacturing, was a significant factor underlying this weaker performance. While some other parts of manufacturing did quite well, including the large chemicals and man-made fibres industry, manufacturing as whole contracted by almost 5% in 2005.



Distribution, Hotels & Catering was hit by the consumer spending slowdown – as in the East of England and the South East – and contracted by around 0.8% in 2005, after strong growth in recent years.

With so much of the county's economy struggling, a sharp easing of GVA growth was inevitable. Even a boom year for the county's construction sector, which made up for three years of contraction or stagnation with double-digit growth, and continued solid expansion in banking & insurance and the large business services industry, could not compensate for weakness elsewhere.

**In 2006 the Hertfordshire economy is rebounding strongly.** The upturn is broadly-based, featuring an improved performance from the manufacturing sector, further growth in construction, better conditions for retailing and other distribution and continuing strength in finance and business services.

#### 1.1.4 Employment in the UK

**The UK experienced a further strong increase in employment (0.8%) last year, despite the slowdown in output growth.** The explanation for this disparity lies in the continued boost to public sector employment provided by government spending, although some dynamic private services maintained their employment expansion.

Continuing contraction in manufacturing employment was outweighed by job creation in most other sectors, notably in construction, health and property related activities, all posting growth at over 3%. There were also strong percentage gains in business services and transport.

In absolute terms, the largest net increases in employment were in health (+100,000) – reflecting government spending on improving health care – and business services (+85,000), which reflects the steadily expanding contribution of this industry. It now accounts for 14% of GVA, against less than 10% only a decade ago.

Data for 2006 suggests continuing employment expansion. Employment in manufacturing remains on a downward path as the upturn in output is achieved through productivity gains, but service sector job creation outweighs this. From 2007 employment growth is expected to moderate as public sector job creation eases.

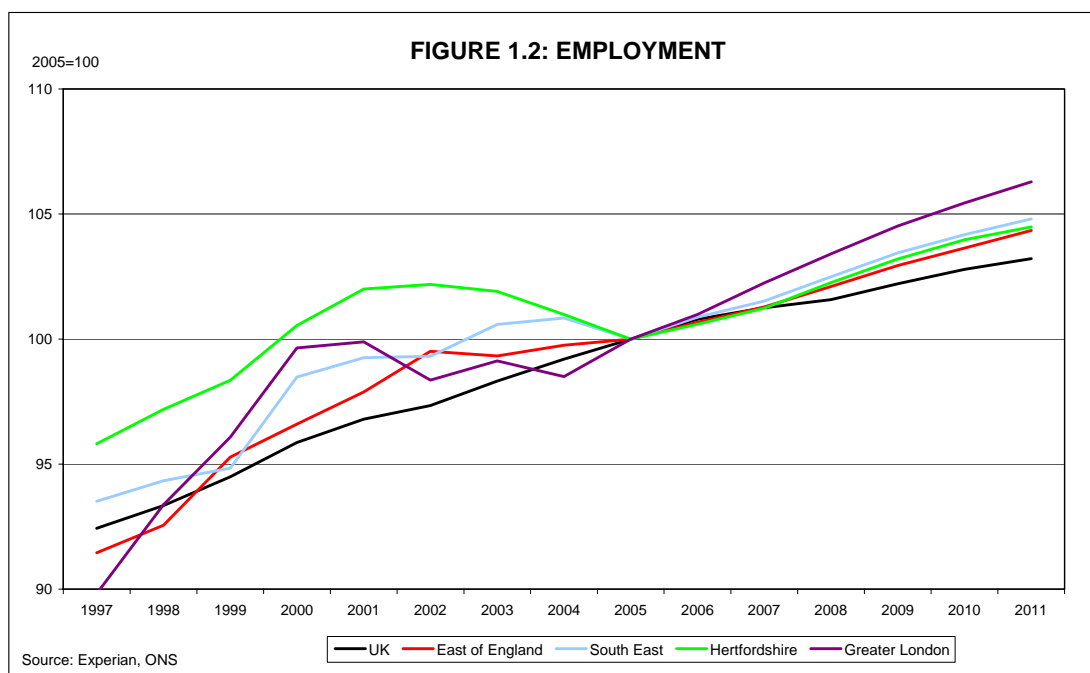
#### 1.1.5 Employment in the East of England and the South East

The **East of England** suffered a marked fall in employment numbers last year in contrast to the outcome at the national level, and notwithstanding growth in output. This is reminiscent of what happened in 2002, when the impact of an economic slowdown also bore down particularly heavily on the region (output stagnated and employment contracted by 0.7%). Last year employment shrank by 0.8% with output growth at 1.7%. In both years the broad pattern of change among the various sectors was the same. Severe job losses in manufacturing were offset by gains in the public sector. This was also a feature at the UK level. What differentiates the East of England is that there were also employment declines in many other parts of the private service sector – retail, other distribution, hotels & catering, and communications.

The decline in these sectors appears to have been arrested in 2006, but none is showing strong growth. Nevertheless, the region's employment prospects are improving, partly due to a slower pace of job losses in manufacturing, but principally due to strong job creation in Financial & Business Services and the public sector.

The **South East** posted slightly weaker growth in employment last year (0.3%) than in 2004 (0.4%). Employment contraction in manufacturing, distribution, and hotels & catering were

outweighed by gains of 15,000 in both business services and health. These sectors are continuing to expand employment in 2006, though much less strongly.



(See section 1.4 for a discussion of employment in Hertfordshire).

## 1.2 Forecasts

### 1.2.1 GVA growth in the UK

**Near-term outlook:** Official data for 2006H1 point to a strong rebound from last year's slowdown. Output growth in 2006H2 is expected to moderate slightly, but for the year as a whole is likely to be near trend at 2.6%. The upturn is broadly based:

- consumer spending, though still subdued compared with the average of the past decade, is expected to register growth of 2.2% after just 1.4% in 2005;
- business investment remains healthy, supported by an improved manufacturing outlook and a continuation of buoyant service sector expansion;
- exports, boosted by strong global demand including from the key Eurozone market, are set for good growth although as noted in section 1.1.1 the position is distorted by MTIC fraud.

**Medium-term outlook:** GVA growth in 2007 is projected at 2.4%, slightly weaker than in 2006, as budgetary pressures dampen government spending, while consumer spending remains subdued by high interest rates and debt concerns. But by 2008 household spending growth is expected to accelerate, buoyed by increases in disposable income and falling interest rates, and growth reaches 2.9% in both 2009 and 2010. However, we do not expect a return to the exuberant spending rates of the past decade. Households will remain more cautious about taking on additional large debts and this will constrain annual growth rates in spending to around 2.8% over the forecast horizon. Fixed investment, buoyed by good prospects in private services, is projected to grow at a healthy 2.7% per annum to 2011. Growth at this pace **will support GVA expansion at an annual average of 2.7%**, despite a weaker contribution from government spending as public finances remain under pressure. Government spending will be much more restrained than in the past five years, but less so

than in the late 1990s. With exports and imports growing at roughly the same pace over the forecast period, the impact of net trade on overall growth will be small.

<b>FIGURE 1.3: GVA AND EMPLOYMENT</b>							
<b>GVA (£mn<sup>1</sup>)</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2011</b>
Hertfordshire	19,999	20,675	21,418	21,687	22,404	23,172	26,154
East of England	78,839	81,992	84,849	86,321	88,969	91,805	102,746
South East	133,309	137,655	142,623	144,649	148,411	152,159	171,801
Greater London	170,813	172,538	176,444	181,787	187,905	195,151	221,899
UK	1,081,469	1,110,296	1,146,523	1,167,758	1,197,586	1,226,898	1,368,741
<b>GVA (% pa)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>1995-2005</b>	<b>2005-2011</b>
Hertfordshire	3.6	1.3	3.3	3.4	3.3	3.4	3.2
East of England	3.5	1.7	3.1	3.2	3.0	2.9	2.9
South East	3.6	1.4	2.6	2.5	3.0	3.7	2.9
Greater London	2.3	3.0	3.4	3.9	3.5	2.9	3.4
UK	3.3	1.9	2.6	2.4	2.5	2.8	2.7
<b>Employment (000s)</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2011</b>
Hertfordshire	549	547	542	537	540	544	561
East of England	2,679	2,713	2,720	2,697	2,721	2,738	2,827
South East	4,271	4,263	4,281	4,292	4,320	4,347	4,478
Greater London	4,507	4,542	4,514	4,582	4,627	4,685	4,871
UK	30,028	30,331	30,600	30,849	31,091	31,236	31,840
<b>Employment (% pa)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>	<b>1995-2005</b>	<b>2005-2011</b>
Hertfordshire	-0.9	-1.0	0.6	0.6	1.0	0.8	0.7
East of England	0.3	-0.8	0.9	0.6	1.0	1.0	0.8
South East	0.4	0.3	0.7	0.6	0.8	1.5	0.7
Greater London	-0.6	1.5	1.0	1.3	1.1	1.5	1.0
UK	0.9	0.8	0.8	0.5	0.3	1.1	0.5
Note: <sup>1</sup> Chained Volume Measure, reference year 2002.							
Source: ONS, Experian							

### Sectoral contributions to medium-term GVA growth<sup>1</sup>:

- **Manufacturing** is expected to sustain the recovery from the difficult conditions it endured during the first five years of this decade. Stronger demand from the Eurozone and continuing buoyancy in the global economy should support the sector. But growth is likely to be constrained by a further shift of output in traditional, labour-intensive operations to lower wage economies, and will struggle to exceed 1.5% per annum. Nevertheless, this represents a welcome turnaround from the negative contribution in most years since 2000.
- **Construction** has experienced solid annual growth rates averaging 3% in the past five years. Expansion at slightly below this pace is forecast to 2011 as public sector expenditure constraints restrict building projects.
- **Distribution, Hotels & Catering**, supported by rising leisure and income growth is forecast to post medium-term growth averaging 2.7% a year.

<sup>1</sup> See Annex for list of sectors, industries and SIC codes

- **Transport & Communications** will remain a strong growth sector, driven by innovation and technology advance in the communications industry. Growth averaging in excess of 5% a year is forecast to 2011.
- **Financial & Business Services** is forecast to achieve healthy annual average growth at around 4.5%, with the business services industry posting the strongest expansion. This is a highly diverse industry, encompassing legal, accounting, consultancy and computer & related activities, all of which are set for further healthy growth reflecting growing commercial needs for professional services. The banking & insurance industry, which in 2005 was half the size of business services in terms of its contribution to GVA, will continue to benefit from increasing wealth and growing demand for increasingly sophisticated services in areas such as fund management and insurance products.
- **Public Services** growth is forecast to moderate to just over 2% per annum over the medium-term, from 2.5% in the period 2000-05.

### 1.2.2 GVA growth in the East of England and the South East

In the near term, growth in the **East of England** will sustain the momentum of recovery seen recent quarters. This will lift GVA growth for the year as a whole to 3.1%, surpassing the UK average by a wide margin. Banking & insurance, business services and communications are the main drivers of this buoyant performance. There is even a positive, albeit very small, contribution from manufacturing.

Regional output growth in 2007 is expected to be slightly stronger than in 2006, at 3.2%, widening the gap over the UK. Over the medium term, the region's robust demographics, strong employment and favourable industrial mix support growth at a rate faster than the national average. Output is expected to rise by 2.9% a year to 2011. Growth will be broadly based, but with particularly strong outcomes from business services and communications. In manufacturing, the electronics industry is expected to register good growth and prospects for high-tech clusters, for example in biosciences, are very positive.

GVA in the **South East** is following the UK pattern of a rebound from last year's slowdown, but the upturn is much less marked than in the East of England, with output growth at 2.6% in line with the UK average. Manufacturing in the region is making only a marginal gain from last year's level, but the main factor that differentiates the South East from the East of England is the less vigorous growth posted by Financial & Business Services. This continues to limit growth to near, indeed a little below, the national rate in 2007, with an expected increase of 2.5%.

However, looking ahead to 2011, GVA growth is projected to average 2.9% a year, a much faster rate than for the UK as whole. The South East's structural strength in skills, industry mix and demographics underlie this strong performance. Medium-term prospects are boosted by a return to strong expansion in Transport & Communications and Financial & Business Services. Growth also benefits from reasonable progress in the region's electrical engineering and chemicals & man-made fibres industries, supported by strong international investment.

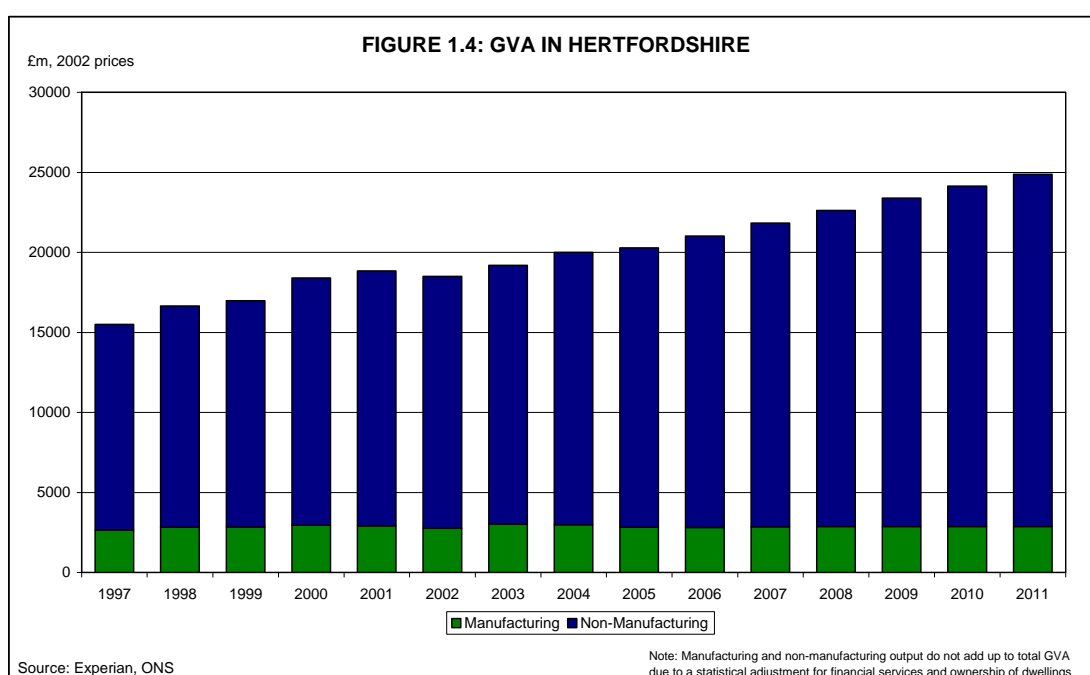
### 1.2.3 GVA growth in Hertfordshire

As noted in section 1.1.3, Hertfordshire suffered a particularly sharp slowdown in output growth last year but is rebounding strongly. **GVA growth in 2006 is expected to reach 3.3%**, well above the UK rate and outpacing the relatively fast-growing East of England economy. This performance is the more remarkable as manufacturing in the county fails to recover as it does in the rest of the UK, undermined by further decline in the paper, printing & publishing industry. Recovery in retailing and other distribution, in line with stronger consumer spending, is an important element of the upturn, but very strong output growth in business services and

communications also contribute. **In 2007, growth at 3.4% for Hertfordshire is likely to continue to surpass the UK rate by a wide margin.**

**Over the medium term, GVA in Hertfordshire is projected to expand at annual average of 3.2%**, surpassing the healthy rate (2.9%) forecast for the East of England as a whole. Vigorous progress in business services and communications is a key driver of GVA growth. Annual average growth in these industries is expected to be in the 6-9% range, supported by more modest expansion elsewhere in the service sector, with expansion at 3% a year in hotels & catering, transport and banking & insurance, and at 2.5% in the public sector. In manufacturing, the once dominant printing, paper & publishing industry continues to decline. However, there are good prospects in a few other areas, led by chemicals & man-made fibres and electrical & optical engineering, where annual growth at near 3.5% is forecast, albeit from a low base.

See section 1.3 for further discussion of output in Hertfordshire.



#### 1.2.4 Employment growth in the UK

After continuing to expand by near 1% in 2005, despite the economic slowdown, employment in the UK has maintained that pace in 2006. Another rise of 0.8% represents a net addition of 243,000 jobs. Manufacturing employment continues to contract, with a further 65,000 jobs lost. Both Financial & Business Services and Other (mainly public services) have seen strong expansion, but Distribution, Hotels & Catering has seen employment growth fall for the second successive year.

2007 is expected to see net new job creation at a slower pace than in 2006. There will be a marked slowdown in the rate of job contraction in manufacturing, with the loss of 27,000 employees, in line with better output prospects. However, employment expansion in services is expected to be less marked than the past few years as public sector spending eases, with less vigorous employment growth in health and education.

Over the period to 2011, job creation will be largely dependent on private sector services, as the public sector jobs boom of recent years is followed by more modest expansion. The strongest gains are likely to be in business services, and Distribution, Hotels & Catering.

Manufacturing employment will see further contraction, but with output growing slightly, job losses will be less acute than in the past five years. Few industries escape further contraction between 2005 and 2011, but significant exceptions are manufacture of electrical and optical equipment (which includes computers and office machinery) and recycling industries.

### 1.2.5 Employment growth in the East of England and the South East

The upswing in output in 2006 in the **East of England** is accompanied by a resumption of employment growth estimated at 0.9%. The public sector and Financial & Business Services are exhibiting the strongest expansion in both percentage and absolute terms. Some parts of manufacturing are also experiencing employment growth, but gains are small and overall employment contraction in the sector continues.

In 2007, employment growth is forecast to slow but it will remain in excess of the national average. The sectoral pattern is rather different; gains in the public sector, education and health, are less marked; communications, business services and construction see the strongest growth; and the decline in manufacturing is small.

These trends become entrenched in the medium term. Public sector employment growth is forecast to ease to around 1% per annum to 2011, from 3% in the past four years; communications sees annual employment growth at 3.5%; and business services (2.2%) and hotels & catering (1.6%) also post strong growth. Employment in manufacturing is expected to stabilise. Overall employment growth is expected to average 0.8% a year, well above the UK rate

Employment trends in the **South East** are similar to those outlined for the East of England, with a declining boost to job numbers from the public sector in the second half of the decade and private sector services taking over as the main driver of employment expansion.

Growth in total employment in 2006 is estimated at 0.7%, comparing favourably with the UK rate though trailing the East of England. But in 2007, growth in the region matches the East of England rate with a major contribution from hotels & catering and retailing on the back of strong income and population growth.

In the period to 2011, the South East is expected to see annual employment growth averaging 0.7%, slightly slower than the East of England. Hotels & catering show the strongest growth, averaging 3% a year and the industry provides the largest absolute increase in job numbers, after business services, where growth is forecast at 0.9%. The public sector continues to create jobs, but at a modest 0.4% per annum.

### 1.2.6 Employment growth in Hertfordshire

**Employment growth in Hertfordshire is expected to resume the strong upward path** seen since 1992, though this was temporarily interrupted in 2002-05 when both communications and manufacturing experienced output contraction and marked job losses.

Manufacturing output is expected to recover from 2006, although growth will be modest and job numbers continue to decline, largely due to further contraction in the sizeable paper, printing & publishing industry. By contrast, output growth in communications is forecast to be vigorous in the period to 2011, accompanied by very strong job creation. In conjunction with employment growth in the large business services industry, this increase underpins the forecast of jobs growth in Hertfordshire averaging 0.7% a year over the forecast horizon.

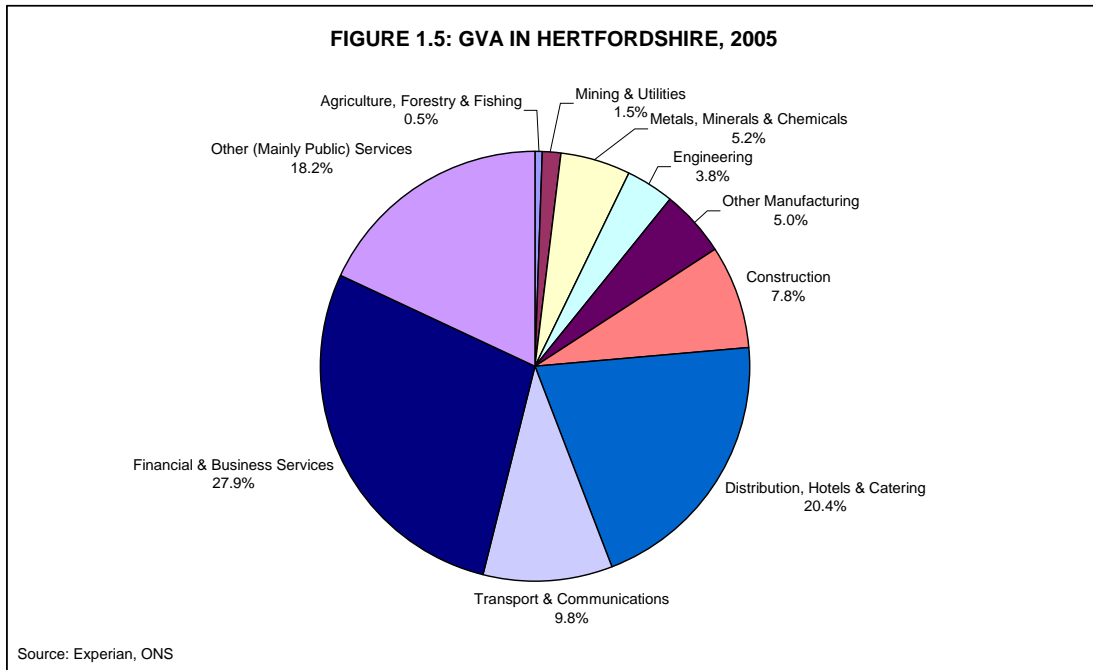
See sections 1.4 and 1.6 for further discussion of employment in Hertfordshire.

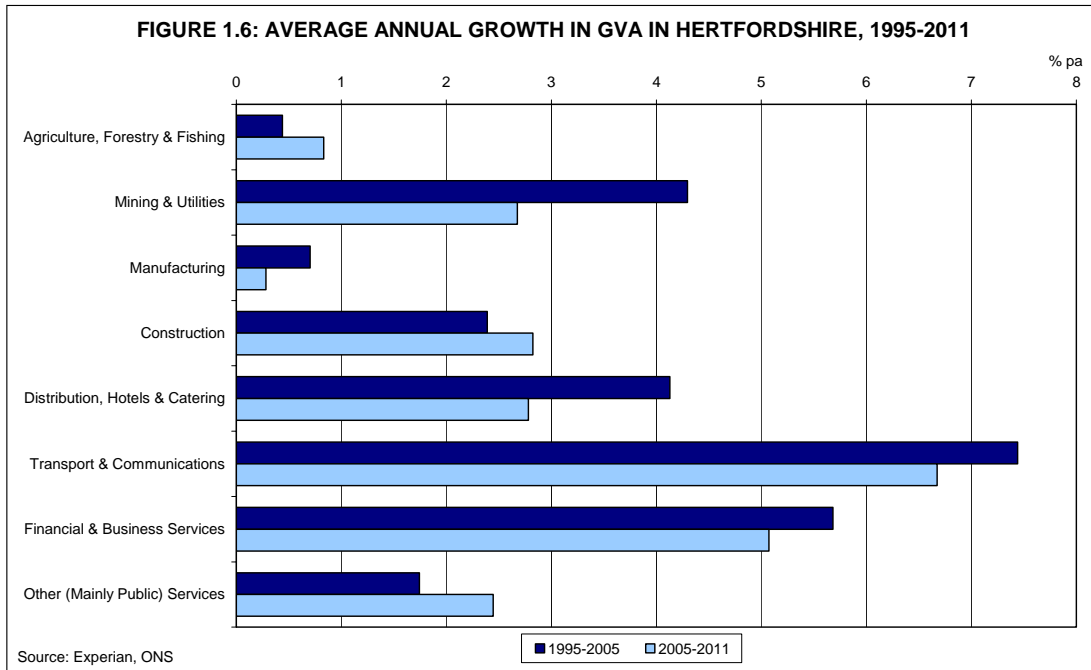
### 1.3 Output in Hertfordshire

In 2005, GVA in Hertfordshire amounted to £21.7bn (at constant 2002 prices), accounting for 25.1% of the total value of the East of England regional economy. In the decade to 2005, the Hertfordshire economy grew by 3.4% a year on average, comparing favourably with the 2.8% rate achieved by the UK as whole and the 2.9% for East of England, but some way behind the 3.7% annual rate posted by the South East. Hertfordshire's share of the East of England economy is expected to grow to 25.5% by 2011.

As in the rest of the UK, growth in Hertfordshire in recent decades has been driven by the service sector. Hertfordshire has benefited from the fact that the share of services in the economy is relatively high, at 78.6% (including construction) in 2005, compared with 73.5% for East of England region and 77.1% for the South East. The Hertfordshire share is also larger than that for the UK as whole (75.5%), even though the UK figure is boosted by the strong contribution of London. The share of the slow-growing manufacturing sector in the county's economy is correspondingly low at 13.1% in 2005, compared with 14.3% for the UK as whole, 13.3% for the South East and 16.6% for the East of England.

With services continuing to expand strongly while manufacturing languishes, the share of services is forecast to reach 82% of the Hertfordshire economy by 2011, with manufacturing accounting for 11%.





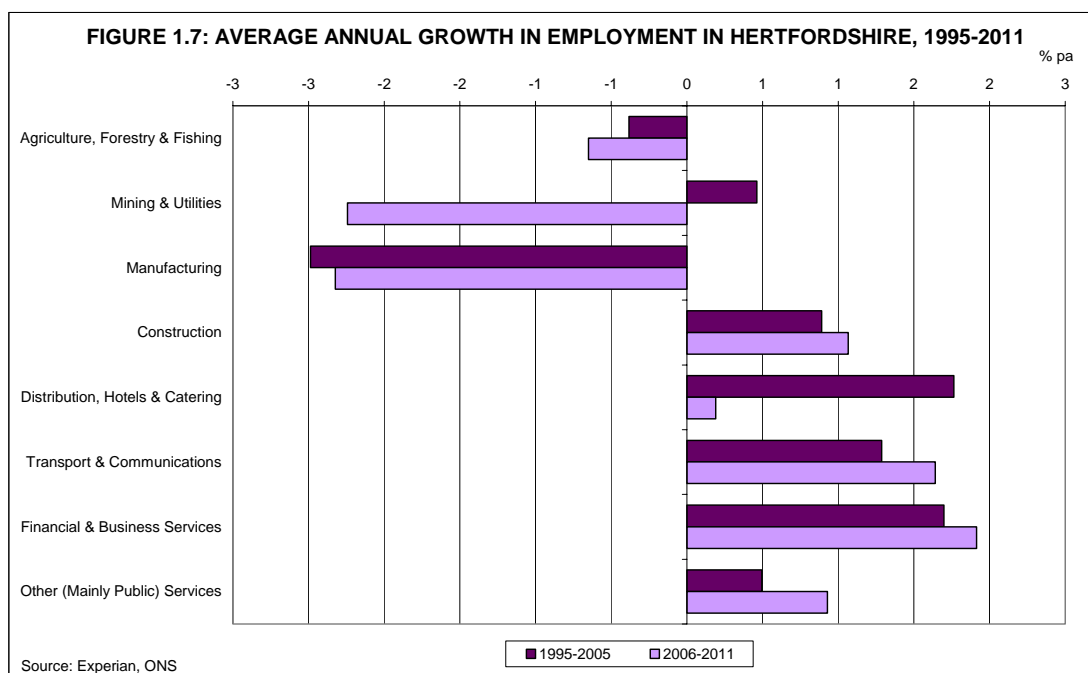
## 1.4 Employment in Hertfordshire

After declining steadily between 2002 and 2005, employment in Hertfordshire is rising in 2006 and is projected to remain on an upward path in the period to 2011.

**Short term:** Job gains in Hertfordshire are forecast to be strongest in absolute terms in construction; education; health; business services; other community, social and personal service activities and communications.

**Medium term:** In the period to 2011, the largest employment gains are expected to be in the large support services sector - computer & related activities, research & development and other business activities. Distribution, Hotels & Catering, communications and other community, social and personal service activities will also be significant job creators over the period. Job expansion in the public sector will continue, but at a much slower pace than in the recent past.

See also Chapter 3, section 3.4



## 1.5 Sub-regional competitiveness (productivity) and wealth

**Productivity** in Hertfordshire is estimated to have risen by around 3.0% in 2005, following an exceptional increase of 4.6% in 2004. Over the period to 2011, productivity gains in Hertfordshire are expected to average 2.8% a year, slightly faster than in the past, but well ahead of the rest of East of England region, and stronger than those expected in the South East and at the national level.

**FIGURE 1.8: PRODUCTIVITY<sup>1</sup> (£000s)**

	1995	2005	2011	1995-2005 (%pa)	2005-2011 (%pa)
UK	33.4	39.3	45.0	1.7	2.3
South East	33.4	40.8	46.6	2.0	2.3
East of England	32.4	39.1	44.5	1.9	2.2
Greater London	39.5	46.1	53.0	1.6	2.4
Hertfordshire	35.4	46.0	54.2	2.7	2.8
Bedfordshire	29.4	34.7	39.9	1.7	2.3
Cambridgeshire	29.9	35.8	41.5	1.8	2.5
Essex	27.6	33.7	38.7	2.0	2.4
Norfolk	26.3	30.7	35.3	1.6	2.3
Suffolk	27.0	33.1	38.4	2.0	2.5

Note: <sup>1</sup> Productivity is measured by GVA per full-time worker. Full-time employment is defined as: Full Time Employees + Self employed + 0.4\*Part-time employees

Source: Experian, ONS

Productivity levels are higher in Hertfordshire than in any other county in the UK. In 2005, output per full-time worker was estimated to be £6,700 higher than the national average.

**GVA per head** in Hertfordshire is surpassed by few parts of the UK. In 2005, the county's figure was 16% higher than the UK average and 24% higher than the East of England regional average. GVA per head in all other counties in the region is below the UK average. This strong performance is achieved despite the impact of commuting – the work of out-

commuters is attributed to other areas yet they are included in the denominator for this calculation.

## 1.6 Prospects for sectors<sup>2</sup>

	Share of total output - 2005 (%) <sup>1</sup>					Change in output 2006 (%)					Change in output 2007 (%)					Change in output 2005-11 (%pa)				
	Herts	East of England	South East	Greater London	UK	Herts	East of England	South East	Greater London	UK	Herts	East of England	South East	Greater London	UK	Herts	East of England	South East	Greater London	UK
Agriculture	0.5	1.2	0.8	0.0	0.9	4.5	4.3	5.8	-3.9	3.6	0.1	-0.8	2.9	1.3	1.4	0.8	0.2	1.4	-1.0	1.1
Mining & quarrying	1.4	1.5	1.8	0.9	3.4	3.0	2.0	-7.3	4.4	0.0	3.9	3.3	-6.7	3.9	0.3	2.7	1.4	-0.4	2.0	-0.1
Manufacturing	13.1	16.6	13.3	6.6	14.3	-1.0	0.5	0.4	0.6	0.4	1.9	2.2	2.1	2.9	2.5	0.3	1.1	1.5	1.1	1.4
Construction	7.3	6.9	5.7	4.2	5.8	2.9	2.4	2.2	3.0	1.8	4.4	4.6	2.9	1.3	3.4	2.8	3.0	2.6	2.3	2.5
Distribution, hotels & catering	19.1	17.2	17.3	14.4	15.5	2.5	2.5	2.9	1.8	2.3	1.8	1.7	2.8	2.5	2.6	2.8	2.8	3.1	2.4	2.7
Transport & communications	9.1	8.6	8.0	10.5	7.8	6.6	5.8	5.8	5.8	4.3	8.1	7.2	4.2	7.4	5.5	6.7	5.8	5.5	5.2	5.2
Financial & business services	26.1	21.4	27.3	45.8	24.3	6.6	7.0	3.7	4.8	4.9	5.6	5.8	3.7	5.0	4.8	5.1	5.2	4.0	4.6	4.5
Other (mainly public) services	17.0	19.4	18.7	24.0	22.0	2.8	2.6	2.9	1.9	2.4	2.4	2.3	2.1	2.9	2.1	2.4	2.4	2.4	2.4	2.1

Note: <sup>1</sup> Output shares do not sum up to 100% because of the statistical adjustment

Source: Experian, ONS

The key features from *figure 1.9* are:

**Manufacturing** in Hertfordshire is expected to continue to contract in 2006 as paper, printing & publishing post a further steep decline, but the sector's relatively small contribution to GVA means that overall GVA growth is not seriously impaired. Over the medium term, the sector shows positive growth but at weak pace and with output gains coming from productivity, employment will continue to shrink steadily. **Some 6,700 further jobs are expected to be lost**, at an annual rate of more than 2%, compared with falls of around 1.0% for the East of England, South East and the UK as a whole.

**Construction** output is expected to grow steadily in Hertfordshire over the next few years, although growth in the East of England is projected to be slightly stronger. Employment in construction in Hertfordshire is expected to grow at an annual pace of just over 1% in the period to 2011. Rates of growth for East of England, the South East and the UK are expected to be near this pace.

**Distribution, Hotels & Catering** accounts for a fifth of Hertfordshire's output. Growth of 2.5% in 2006 is led by an upturn in retailing, in line with stronger household spending. In the medium term, a steady increase in output at similar rates to the East of England is projected, **boosted in Hertfordshire's case by growth at almost 3% per annum in the hotels & catering industry**. Employment in the sector as a whole is forecast at just 0.2% a year in Hertfordshire, though this figure is depressed by substantial declines in 2006 and 2007. Most of the growth is in the buoyant hotels & catering industry. Employment growth in East of England is similarly soft, but the South East is expected to expand much more rapidly.

**Transport & Communications** is forecast to be Hertfordshire's strongest performer between 2005 and 2011, underpinned by a very strong contribution from communications. Growth in GVA is expected to be at a much faster pace than in the East of England, the South East and the UK. The sector is set for strong employment gains in percentage terms, virtually all in communications, at 1.6% a year to 2011, faster than the rate of employment creation expected for the East of England and the South East and much faster than the UK as a whole.

<sup>2</sup> See Annex for list of sectors, industries and SIC codes

**Financial & Business Services** is Hertfordshire's largest sector. The business services industry dominates, being much larger than the combined output of the banking & insurance and other financial & business services industries. Prospects are for strong expansion for the sector both in output and employment, notably from business services. Employment growth in business services between 2005 and 2011 is forecast at 2.1% a year, and **the industry is projected to account for almost half the net new jobs created in Hertfordshire** over the period. Job creation in Financial & Business Services as a whole is forecast to average 1.9% a year, well above the rates expected for the South East and the UK, but slightly below the rate forecast for the East of England.

**Other (mainly public) services** are set for much slower employment expansion than in recent years at the UK level. In Hertfordshire, employment creation will slow to an annual rate of 0.9% in the medium term, broadly in line with trends in the East of England.

## 1.7 Key industries

The ten industries in Hertfordshire that are expected to see the greatest absolute increases in employment over the forecast period are shown in the table below. Among these are several that the above analysis has highlighted as fast-growing industries in the UK economy, and that can be regarded as 'key' to future economic growth in Hertfordshire: business services, communications, education, hotels & catering, recreation and community services, construction and health. These industries are generally well represented in Hertfordshire (have high location quotients) and exhibit strong growth.

<b>FIGURE 1.10: TOP TEN INDUSTRIES<sup>1</sup> IN HERTFORDSHIRE RANKED BY FORECAST ABSOLUTE INCREASES IN EMPLOYMENT</b>				
Industry number and name	Employment <sup>2</sup> (000s)	Location quotient <sup>3</sup>	Employment Growth (2005-2011)	
			(%pa)	(000s)
25 Business Services	99.1	1.3	2.1	13.4
23 Communications	14.0	1.5	3.4	3.1
28 Education	41.1	1.0	1.2	3.0
21 Hotels & Catering	33.5	0.9	1.4	2.9
30 Recreation and community services	32.2	1.0	1.4	2.7
18 Construction	40.9	1.1	1.1	2.7
29 Health & social work	44.5	0.7	0.9	2.5
26 Other F&Bs	18.9	1.3	1.9	2.3
24 Banking & Insurance	15.9	0.8	0.5	0.5
22 Transport	18.5	0.8	0.2	0.2

Note: <sup>1</sup> See Annex for definition of sectors and industries  
<sup>2</sup> Employment in 2005  
<sup>3</sup> Location quotient is calculated as employment in the industry in Hertfordshire as a share of total employment in Hertfordshire, compared with the same ratio for the UK. An LQ greater than 1.0 indicates a higher concentration of employment in that industry in Hertfordshire

Source: Experian, ONS

### 1.7.1 Business services

This is a large industry. It accounts for just under one fifth of GVA in Hertfordshire and provides employment for almost 100,000 people in the county.

It is also an extremely diverse industry. It encompasses a variety of high value-added services such as computer and related activities (consultancy, maintenance and repair of computing equipment, data base activities); speciality design; and legal, accounting, architectural, management and engineering consultancy, PR and market research businesses. The industry also includes a diverse mix of generally lower value-added activities, such as labour recruitment, security and related services, and industrial cleaning. The diversity of the industry means that it contains the whole spectrum of corporate size, ranging from large multi-activity companies through to small businesses. The industry's growth has been boosted by:

- The trend towards outsourcing non-core activities such as factory and office maintenance, security PR, market research and cleaning on the part of large companies;
- The growing needs of small and medium-sized businesses for specialist services in these and other areas;
- The increasing sophistication and technological advance in information technology which has led to growing reliance on specialist firms;
- Growing demand for a range of activities such as consultancy, public opinion polling, environmental care;
- Globalisation – in terms of improved global communications and delivery networks – has enabled firms to expand their client base. As a result, businesses in the industry have capitalised on the buoyant global economic background of recent years, particularly in the dynamic Asian economies and emerging markets in Central and Eastern Europe.

Firms in Hertfordshire have benefited from these supportive features.

- Outsourcing of cleaning services has boosted Turners Industrial Cleaning Systems, and Ridge Crest Cleaning;
- Securicor and Initial Security Services have been boosted by the needs of small and medium-sized businesses and outsourcing of security;
- Globalisation and the growing need for professional advice has provided opportunities for KPMG, PriceWaterhouseCoopers, Accenture and Deloitte & Touche to extend their corporate client base.

GVA and employment growth in the industry are expected to remain strong against a healthy global background and solid expansion in the UK economy. Output in Hertfordshire is forecast to increase at an annual average of 5% to 2011, with employment growing at 2.1% a year. For both GVA and employment, the projected growth rates are well above the UK average, and broadly in line with the increases forecast for the East of England.

### 1.7.2 Communications

Communications has been a fast growing industry for most of the period since the early 1990s driven by deregulation and technological innovation. However, both nationally and in Hertfordshire progress was interrupted in the early years of this decade as the initial phase of rapid penetration in the internet and mobile telephony was succeeded by weaker demand. Growth in the industry slowed and employment contracted as telecommunications firms sought cost reductions. But, this process appears to have ended and the industry is expected to regain its momentum as further technological developments boost demand.

Growth in the industry is forecast to average an impressive 9% per annum in Hertfordshire the period to 2011, in line with the rate expected for the East of England, and slightly higher than the UK growth rate. Much of this growth will reflect productivity and technological improvement, but employment growth in Hertfordshire is still expected to average a robust 3.4% a year as firms in the county benefit from the favourable demand backdrop and take on an extra 3,100 people over the period to 2011.

### 1.7.3 Education

The education industry employs 42,000 people in Hertfordshire. Employment has grown steadily since 1999 after stabilising during the 1990s. Funding for public sector education will come under greater restraint over the medium term, and employment growth is forecast to moderate from an annual rate of increase approaching 2% in the past few years to 1.2% to 2011.

#### 1.7.4 Hotels & catering

The hotels & catering industry has expanded at a robust pace in recent years, boosted by steady growth in disposable incomes, a strong labour market and healthy growth in tourism, both domestic and international. While periodic disruptions to passenger movements and travel plans must be expected, the marked upward trend in business and personal travel is set to continue.

In Hertfordshire, the industry employs some 30,000 people, almost twice as many as in the early 1990s. Growth in the industry has been exceptionally strong, averaging 6% a year over the past decade, double the pace of expansion in both East of England and the UK as a whole. This rapid expansion is expected to moderate to 3.1% per annum over the period to 2011, but Hertfordshire will still enjoy faster growth than the East of England (2.9%) and the UK (2.6%). Employment growth in the county at 1.4% a year will add a net 2,900 jobs over the period.

#### 1.7.5 Recreation and community services

This diverse industry comprises activities that cannot be allocated to other areas of the service sector. It includes sewage and refuse disposal & sanitation, an important growth area given the increasing concern with the environment. Growth in the industry is also underpinned by the boost to demand for recreational, cultural, sporting and physical well-being activities associated with rising affluence and leisure, including among the growing number of retired people. Growth in output from the industry averaging 3.3% a year is forecast for Hertfordshire to 2011, slightly behind the UK rate, with employment growth in county averaging 1.4%.

#### 1.7.6 Construction

The sector's output grew strongly in 2005, boosting average annual growth in Hertfordshire to around 4% in the first half of this decade. The sector now employs 41,500 in the county, and this figure is forecast to rise steadily to 2011, with output growth expected to average 2.8% a year. Growth will be underpinned by the steady growth in repair & maintenance work associated with rising disposable incomes; the drive for more dwellings in the county reflecting strong population growth; infrastructure projects such as the widening of the M1; and schemes including the Olympic Games kayak slalom project and new teaching blocks for Hertford Regional College at Broxbourne.

#### 1.7.7 Health & social work

After retailing and business services, health & social work is the largest employer in Hertfordshire as in most other areas of the UK. An ageing population and technological advances have increased the demands on the health and care system. Public sector spending and employment creation in the industry are increasingly supplemented by private funding in reaction to perceived shortcomings of the state system and increasing affluence of the UK population. The industry is expected to grow by 2.9% a year to 2011, matching the rate of the past five years, accompanied by an expansion of employment numbering 2,500.