
**MARKET SERVICES PERFORMANCE
IN TYNE & WEAR AND THE CITY REGION**

2001-2005

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PREFACE

This report mainly analyses the ‘market services’ sector in Tyne & Wear City Region (TWCR), which produces output (GVA) worth £8.7bn or about 35%¹ of the economy. It also covers the construction industry (worth £1.5bn). Together, market services and construction account for 41% of the output of TWCR². In Part A, the report compares their performance with those of the same services in Leeds City Region (Leeds CR) and the UK. In Part B, the report compares the performance of Tyne & Wear (TW) with the Rest of the City Region (RoCR).

The analysis gives unprecedented insight into the market services sector at the City Region (CR) level, which had not previously been acquired from ONS. It is a major advance to have such data for TWCR, given that the need for information and analysis about dynamics in the economy at this level was identified by the OECD³. This is in order to support public policies to increase the competitiveness of the City Region.

The inclusion of information for Leeds CR also meets the suggestion by the OECD that CR research should provide a view which places changes in the local economy within the context of activities in other areas.

TWRI produced an earlier report on Manufacturing and Market Services Performance 1998-2000 (in 2004).

The data set for this report (the ‘county table’) has been specifically acquired by TWRI from ONS⁴.

Caution has to be attached to the reliability of the figures at county-level. Data is particularly volatile at the level of RoCR as these figures are much smaller. The major discrepancies are highlighted in the text. Readers may find more. For further details, please read the Data Quality Statement included in this report.

Nevertheless, this report provides a significant insight into the performance of the market services and construction sectors in TWCR, TW and RoCR, compared through time and with Leeds CR and the UK.

TWRI

Date. August 2008

Whilst every effort has been taken to ensure the accuracy and reliability of the information presented in this report, TWRI does not accept responsibility for any errors in either the data or its analysis, howsoever they may have been caused.

¹ TWRI estimates the following: the £10.2bn of GVA covered by the report is equal to 41% of Tyne & Wear City Region’s estimated £24.7bn GVA in 2005; the £7.8bn of GVA covered in Tyne & Wear is equal to 44% of its estimated £17.9bn GVA in 2005; and the £2.4bn covered in the Rest of the City Region is equal to 35% of its estimated £6.8bn GVA in 2005. [Estimated GVA calculated using ONS Regional GVA figures apportioned on the basis of population]

² This includes an estimated 44%¹ of the economy in Tyne & Wear (TW) itself and an estimated 35% of the economy in the Rest of the City Region¹ (RoCR i.e. that part of TWCR beyond the boundaries of TW).

³ ‘Building a Competitive City Region: The Case of Newcastle in The North East’, Organisation for Economic Co-Operation and Development, 29-30 June 2006 (GOV/TDPC(2006)10)

⁴ Data for RoCR was calculated by TWRI by subtracting TW data from TWCR, rather than being directly acquired from ONS.

MARKET SERVICES NARRATIVE

Strong Growth of Market Services

This is a story of strong economic performance by TWCR Market Services (MS) firms. MS output grew by an annual average of 3.9%, almost two-thirds faster than the UK (av. 2.4%pa)⁵.

The Rest of the City Region (RoCR) helped to propel forward MS in TWCR; in 2001-05, RoCR's MS output growth was 1½ times as fast (22%) as Tyne & Wear (TW) (14%). But this growth is from a small base; RoCR still only produced 22% of TWCR's output –less than for Manufacturing.

Context of Strong Growth of the Tyne & Wear Economy

TWRI estimates that the Tyne & Wear economy (as a whole) grew by about a real 3½% pa over the four years 2001-05. Growth in the market services was in line with this overall economic growth rate. Manufacturing's growth was slower at over 1%pa, in contrast to falls in the UK and Leeds CR (details in the Manufacturing Performance report). Construction's growth was faster at almost 8%pa.)

This picture of faster economic growth than in the UK is supported by the evidence from the number of VAT registered of firms. These numbers in TWCR from 2002 to 2006 (up 12.2%) have grown faster than in the UK every year, and by an average differential of virtually +1pp⁶ annually. (Details in TWRI's report *Businesses Registered for VAT in Tyne & Wear City Region, 2006*).

The picture of strong growth of market services output revealed by this analysis is a much more positive one of TW's economic performance than that shown in analysis of employment change. TWRI had found that about 95% of recorded employment growth in TW was in Public Services [using ABI data] (*Employment Change in Tyne & Wear 1998-2003*, published in 2006).

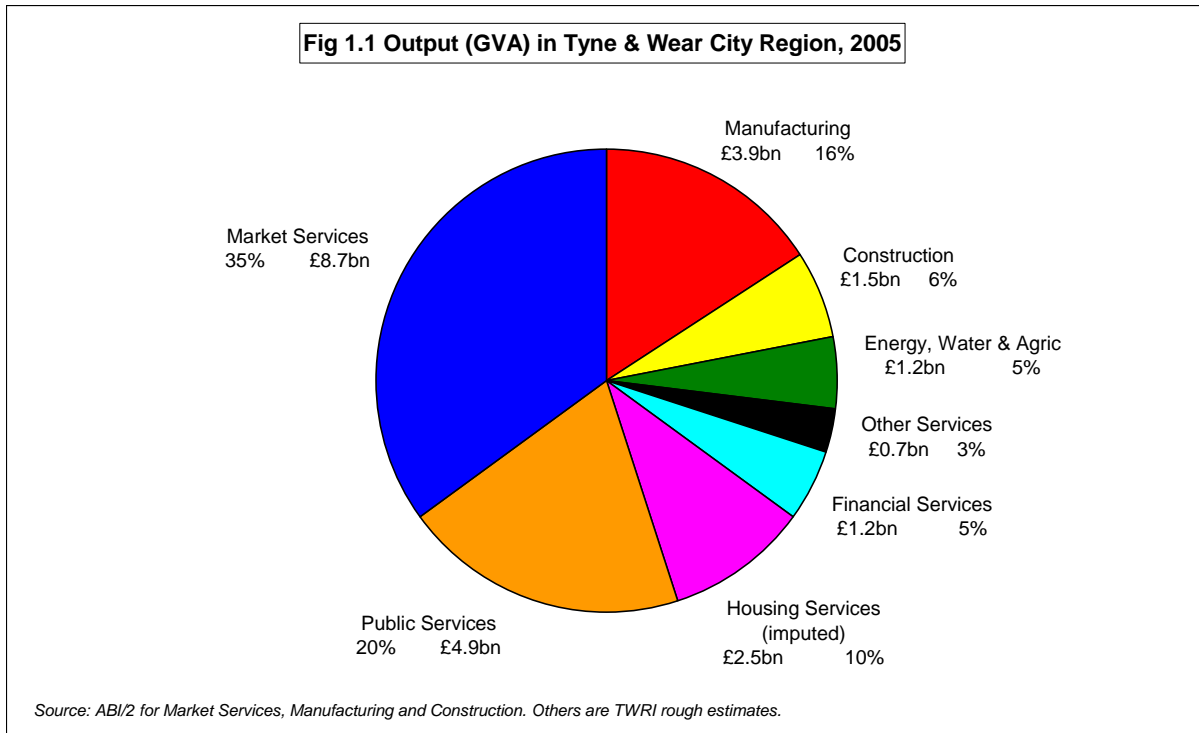
Structure of the TWCR Economy

In 2005, the TWCR economy produced output worth around £24.7bn⁷, of which £8.7bn (35%) was MS output, making the MS sector over twice as large as manufacturing (Fig. 1.1).

⁵ All in real terms.

⁶ pp means percentage point in TWRI reports.

⁷ TWRI estimate based on ONS Regional GVA figures apportioned on the basis of population.



Employment in MS in TWCR accounts for the better part of half of all jobs (281,000), and was over three times as large as Manufacturing (80,000).

Issues Arising from the Analysis

There are four main issues of potential concern:

- i. Leeds CR's MS *growth* was even more rapid –by about 1pp annually. This might be mainly (say ½pp annually) be driven by faster population growth.
 - ii. *Other Business Services* (OBS) in Leeds CR (up 44%) grew almost twice as fast as TWCR (in this, the leading MS industry).
 - iii. *Weak productivity growth* –partly due to OBS' weakness, where productivity fell in TW. TWRI suspects this is due to growth of low-productivity activities in OBS.
 - iv. Lack of MS industries with clearly *emerging competitive advantage*. There are, however, some signs of competitive advantage in Telecoms, Retailing and, perhaps, in OBS.
-
- i. TWCR's MS output grew healthily (about 3.9%pa on average) and was significantly faster than the UK (2.4%pa), but (importantly) was out-performed by Leeds CR (5%pa)⁸. Slower growth in TWCR is partly explained by a later upturn in TWCR; growth was much stronger in 2003-2005 than 2001-2003. This is suspected to be a 'late cycle effect' meaning, in an upturn period, TWCR economic growth tends to accelerate slightly later than the UK, but experiences broadly similar growth patterns.
 - ii. Business Services grew by 23% in TWCR but by 44% in Leeds CR. TWCR was hit by a reported big drop in output in 2003⁹.

⁸ These are in real terms (i.e. after deflating the original data, using the UK GVA deflator).

⁹ This could be either a real drop or volatility -due to TWCR's sampling frame. If a greater proportion of TWCR's output is from small firms, then the aggregate estimates will be less reliable than for Leeds CR.

- iii. Productivity in TWCR in MS is, overall, 10% below the UK –partly due to RoCR (17% below UK). In TW’s Business Services, productivity fell by -3% (but note: ‘Other Business Services’ is a very mixed bag; see Box 2.1 for an explanation of this).
- iv. There is some suggestion of TWCR’s competitive advantage from over-representation (‘Output Location Quotient’ bigger than 1.0 which is the UK average) in Telecoms (1.67) and Retailing (1.31). The high output of Telecoms might well be due partly to cable TV. It might also include call centres (but the ABI/2 estimates oddly high productivity). The high reliance on retailing has been observed for decades from VAT data. TW’s Other Business Services shows signs of emerging competitive advantage in terms of its rapid growth of profit margins (up 8pp) and of output (up 20%) (See Box 11.1 for more details).

Surprisingly, given the presence of Sage’s HQ in TWCR, estimates suggest that Computing is *under-represented* in TWCR (at 0.79) [but this could be due to the HQ being coded to Business Services¹⁰].

Structural Differences from Leeds City Region’s Market Services

In contrast to TWCR, Leeds CR is over-represented in services which might be summarised as ‘non-Retail aspects of Distribution etc.’;

Transport Support (1.44),
the Motor Trade (1.37) and
Wholesale (1.16).

These might be services in which Leeds CR has exploited its location adjacent to the populous Met counties of South Yorkshire and Greater Manchester (as well as serving its own large population).

¹⁰ Strictly this is what the new SIC 2003 requires; HQs are classified to Other Business Services, whereas previously they were coded according to their main activity.

MAIN POINTS ON MARKET SERVICES PERFORMANCE

	UK	Leeds City Region	Tyne & Wear City Region	Tyne & Wear	Rest of the City Region
Output 2005	£m 453,330	17,425	8,672	6,735	1,936
Change in Output 2001-2005	9.7%	20.5%	15.7%	14.1%	21.8%
Average pa	2.4%	5.1%	3.9%	3.5%	5.5%
Productivity 2005	£ 34,149	31,600	30,893	31,750	28,240
Change in Productivity 2001-2005	3.9%	11.0%	3.5%	1.8%	9.7%
Average pa	1.0%	2.8%	0.9%	0.4%	2.4%
Operating Profit 2005	£m 214,035	8,113	4,310	3,409	902
Change in Operating Profit 2001-2005	10.3%	23.7%	20.4%	20.3%	20.8%
Operating Profit Margins 2005	47.2%	46.6%	49.7%	50.6%	46.6%
Operating Profit Margins 2001-2005 (pp)	0.3	1.2	1.9	2.6	-0.4
Purchasing of ACT Services 2005	£m 9,034	1,184	718	590	128
Purchasing of Services 2005 (Computing & Telecoms only)	£m 3,108	505	300	227	73

Note: Overall productivity in Tyne & Wear City Region has been depressed somewhat by the severe (-22%) drop in productivity in Renting Machinery & Equipment, which would depress the overall average by approximately 0.25pp.

OUTPUT (§2)

- **Market services output** in TWCR was **more than double manufacturing output**. Output in TWCR was **£8.7bn** in 2005, 2% of total UK market services output and equal to just less than half¹¹ the output in Leeds CR.
- TWCR's market services output is **much larger in TW than RoCR**. TW produced 78% (£6,735m) of total market services output in TWCR. RoCR adds 29% (£1,936m) to TW's market services output.
- TWCR's market services sector is **slightly less diverse**¹² than Leeds CR; five top ten services¹³ were over-represented¹⁴ in TWCR compared to six in Leeds CR.

¹¹ 49.8%

¹² Diversity is here defined in terms of the number of market services which were over-represented relative to their share of output in the UK.

¹³ The top ten TWCR market services by output were Other Business Services, Retail Trade, Post & Telecoms, Wholesale Trade, Hotels & Restaurants, Computers, Motor Trade, Land Transport, Real Estate and Transport Support.

¹⁴ Or matched the UK share of output.

- TWCR's market services sector is **more diverse⁵ in RoCR than TW**. The market services sector is under-represented in both TW and RoCR but the extent of under-representation is greater in TW: half of the top ten market services were over-represented in RoCR, two more than in TW.
- Output in TWCR **rose 16%** (av. 4% pa) in 2001-2005, **faster than the UK** (+10%, av. 2% pa) but **slower than Leeds CR** (+21%, av. 5% pa). Output **growth in TW was much slower than RoCR**, growing 14% in 2001-2005, less than two-thirds as fast as RoCR (22%).

EMPLOYMENT (§3)

- **Employment** in TWCR was **281,000** in 2005, 2% of total UK market services employment (13.275m) and half¹⁵ that of Leeds CR (551,000). TWCR's market services employment is over three times as large in TW (212,000) as RoCR (69,000).
- TWCR market services employment **rose 12%** in 2001-2005, [oddly] **faster than both comparators** (UK rose 6%, Leeds CR rose 9%). Employment rose 12% in TW and 11% in RoCR. This fast employment growth is odd, as output growth was slower than in comparators.

PRODUCTIVITY (§4)

- **Productivity** (GVA per employed person) in TWCR was **£30,900** in 2005, a significant 10% below the UK (£34,100) and 2% lower than Leeds CR (£31,600). Productivity in TW was £31,800 (7% less than the UK) and £28,200 in RoCR (17% less than the UK).
- Productivity **growth in TWCR was slower than both comparators**; rising more than 3% (av. below 0.9% pa) in TWCR in 2001-2005 (UK rose 4%, av. 1% pa; Leeds CR rose by a much stronger 11%, almost 3% pa). Surprisingly, productivity **growth was much faster in RoCR** (10%) **than TW** (2%) [perhaps due to a more up-market industrial mix].

OPERATING PROFITS (§5)

- **Operating profits** in TWCR were **£4.3bn** in 2005, 2% of total UK market services operating profits (£214bn) and 53% of market services operating profits in Leeds CR (£8,113m). 79% of TWCR's operating profits were produced in TW.
- Operating profits **rose strongly in TWCR** (by a real **20%**). Growth was slightly slower than Leeds CR (24%) but **twice as fast as the UK** (10%). Operating profits also **rose strongly in both TW** (20%) **and RoCR** (21%).
- Operating **profit margins** in TWCR (**50%**) in 2005 were over 2pp¹⁶ **higher than both comparators** (UK 47%, Leeds CR 47%). TWCR's higher operating profit margins were largely attributable to TW (51%) whose operating profit margins were *higher than all comparators*.
- **Growth in profit margins** in TWCR (+2pp) was **also faster than both comparators** (UK rose 0.3pp, Leeds CR rose 1pp). Again, TWCR's higher growth is attributable to TW (almost 3%, eight times faster than the UK) rather than RoCR (down - 0.4%).

¹⁵ 51.0%

¹⁶ Not 3pp, due to use of data to 1dp.

INVESTMENT (§6)

- **Investment** in TWCR was estimated at around **£1bn** in 2005 (see caution from ONS regarding these estimates). This was led by Telecoms, Retailing and Real Estate.

ESTABLISHMENT SIZE (§7)

- **Average establishment size** in TWCR was **10** employees, which **closely approximated both comparators** (UK 11, Leeds CR 9). Average establishment size remained at these levels throughout 2001-2005.

PURCHASES OF ACT SERVICES (§8)

- TWCR market services firms spent **£718m** (equal to 8% of their market services output) on purchasing ACT services (i.e. Advertising, Computing and Telecoms) in 2005, almost two-thirds of Leeds CR (£1,184m, 7% of output). Expenditure on **Advertising services** was the largest item purchased in both CRs.

CONSTRUCTION (§9)

- Construction **output** was **£1.5bn** in TWCR in 2005. RoCR augmented TW by a large 44%.

Box i: Tyne & Wear's strong growth was not just due to rapid public service expansion

This report is good evidence that the strong growth of overall GVA in Tyne & Wear between 1998 and 2006 was *not* just (or probably mainly) due to expansion of the public services. Clearly, there was strong private sector growth too.

These sectoral data, through the analysis by TWRI, show that the real growth rate of market services was strong (around 3½%pa) over a reasonable period (four years) and growth of construction output was remarkable.

Other data from ONS have shown that Tyne & Wear's rapid growth of GVA per head (up *six percentage points* from 1998-2006 relative to the UK). The public services are relatively large in TW, perhaps accounting for a third of total GVA. They have grown rapidly, as a decision of government policy, with real growth nationally of about 4%pa for education and about 6-7%pa for health.

DATA QUALITY STATEMENT ON ABI/2

Key message: The data used for this report (ONS' ABI/2) should be treated as *largely indicative*. These are not definitive data¹⁷ and should not be regarded as 'facts', but as the best estimates currently available. Nevertheless, the information derived gives both insight into particular industries and a broad overview of performance.

OVERALL RATING

The ONS' Annual Business Inquiry (ABI) yields two types of data, both of which are used in TWRI's reports on Market Services Performance and Manufacturing Performance:

- a) Employment estimates ('ABI/1')
- b) Financial estimates (known collectively as 'ABI/2') including GVA, labour costs, 'net investment' and purchases of key services.

TWRI's overall 'data quality rating'¹⁸ on ABI 1 is that it should be used only in conjunction with other data sources. Ideally, it would be TWRI's practice to try to corroborate such data by cross-checking other sources and this has been TWRI's general practice for a number of years.

ABI/2: STRENGTHS AND LIMITATIONS

The ABI/2 dataset has unknown quality – but great richness. It is in a spirit of *pragmatism* that TWRI has analysed ABI/2 for TWCR; it gives many *insights* into individual industries and a *broad overview*.

The **key strengths** of ABI/2 seem to be:

- Actual financial data were obtained from firms.
- A reasonable sample frame. Full coverage of large employers (those employing over 250 employees). A substantial sample of medium and smaller firms.

The **key limitations** of ABI/2 seem to be:

- Modelling down. ONS has produced ABI/2 by modelling down financial data from enterprises (sometimes national), down to local establishments, and thus areas.
- Employment-related derived estimates (i.e. productivity) are subject to errors in the ABI employment estimates. The ABI's apparent over-estimate of employment in 2005 could have led to under-estimation of productivity (and productivity growth) by perhaps around 5%.
- A sampling frame which generally yields poorer coverage of Market Service firms than of Manufacturing.
- 'Net Investment' estimates are the most statistically un-reliable, because investment is so 'lumpy' (concentrated in a few firms). For this reason, ONS specifically cautions about the use of these data, which are not up to 'National Statistics' standard.¹⁹

Caution: TWRI's cross-check of ABI 2005 found that total employee numbers have been hugely over-estimated by 5-7%. If this scale of error applies to MS (which, fortunately, seems *unlikely*²⁰),

¹⁷ This was the guidance given in the presentation to the TWRI Conference in November 2007.

¹⁸ TWRI's quality rating on ABI 1 was under 4 out of ten, meaning it should only be used in conjunction with other sources.

¹⁹ These cautions are specifically repeated in the section on Net Investment, as required by ONS.

then the stated TWCR employment growth of 12% is about twice as fast as reality²¹. This potential error also applies to productivity; so growth could have been over 2%pa rather than under 1%pa.

Note: 2005 and 2003 data use SIC(2003), whereas 2001 uses SIC(92) (see Appendix 1.1 for details).

²⁰ *This seems unlikely because the biggest errors in ABI 2005 employment estimates are in Public Services. These judgements are made by TWRI after a careful analysis of LFS workplace data for the period 2000-2005.*

²¹ *This is a broad indication of what TWRI believes is the maximum error due to ABI 2005 employment.*

1. INTRODUCTION

This paper presents information on the characteristics and performance of the 'Market Services' in Tyne & Wear City Region (TWCR), between 2001 and 2005 (the latest available), and its constituent areas; Tyne & Wear (TW) and the Rest of the City Region (RoCR). This report also covers the Construction industry (in §15). The original data are from ONS' Annual Business Inquiry (ABI). The analysis of the ten major Market Services is from seven perspectives; mainly by output, employment, productivity and operating profit, but also by investment, establishment size and purchasing of services.

There is one earlier report in this series produced by TWRI, which covered market services in TW in 1998-2000 and was part of a series which also covered manufacturing since 1979. TWRI continues to cover manufacturing, but in a separate report. TWRI has divided the series following the significant geographical addition of TWCR (map on next page), RoCR and Leeds CR (see below).

The 'market services sector' here means all service industries minus the Public Services (Public Administration and Health & Education), Financial Services²² and Other Community, Social & Personal Service Activities.

The 'market services' are thus:

Retail Trade; Wholesale Trade; Motor Trade;

Hotels & Restaurants;

Land Transport; Water Transport; Air Transport; Supporting/Auxiliary Transport;

Post & Telecoms; Real Estate Activities²³; Renting Machinery/Equipment;

Computing; Research & Development;

and 'Other Business Services'.

This is the first report in this series to cover TWCR. TWCR includes the five TW Local Authority Districts (LADs) of Gateshead, Newcastle, North Tyneside, South Tyneside and Sunderland, with the addition of eight shire LADs; Blyth Valley, Castle Morpeth, Chester-le-Street, Derwentside, Durham, Easington, Tynedale and Wansbeck (which form RoCR).

This is also the first report to give a Leeds CR comparison. This has been introduced to provide a benchmark for the TWCR data. Leeds CR²⁴ includes the Local Authority Districts of Bradford, Calderdale, Kirklees, Leeds and Wakefield (effectively West Yorkshire) plus five additional districts of Craven, Harrogate, Selby and York in North Yorkshire and Barnsley in South Yorkshire.

This report continues to use data from the ABI, aggregated (by ONS) from district level, acquired by special purchase. It covers the biggest 10 divisions of market services and the entire construction industry. Temporal comparisons are made for 2001-2005 for TWCR, Leeds CR, TW and RoCR. The main focus of this paper is on levels in 2005, with levels in 2001 and 2003 being used as time-series comparators. Spatial comparisons are primarily drawn between a) TWCR, Leeds City Region (Leeds CR) and the UK, b) TW and the UK and c) RoCR and the UK.

²² The previous report included a section on Financial Intermediation which has been excluded from this report. The section was included for the first time in 2004 but as the data was not present in the ABI county tables, output was estimated by TWRI on the assumption that financial services productivity in TW was the same as in the NE. Data for the financial services continues to be absent and it was not felt that the previous assumption was a sufficient basis for a TWCR and Leeds CR analysis.

²³ UK Real Estate figures are taken from the ABI Tables 'All Regions by Division' and 'All Divisions by Region' rather than the UK ABI Standard Extract Tables, from which all other UK figures are taken.

²⁴ TWRI's series of Annual Monitoring Reports for Tyne Wear Partnership have, hitherto, benchmarked Tyne & Wear with West Yorkshire.

To trace changes in ‘real terms’, the financial data presented in this paper have been adjusted to constant 2003 prices²⁵ where temporal comparisons have been made. Current (2005) prices have been used where (spatial) comparisons have been made that do not track change over time. The GVA deflators used in this report are those for the economy as a whole. While deflators are available for individual sectors, those for the entire economy have been used to provide consistent series, comparable with previous reports²⁶.

THE TYNE & WEAR CITY REGION

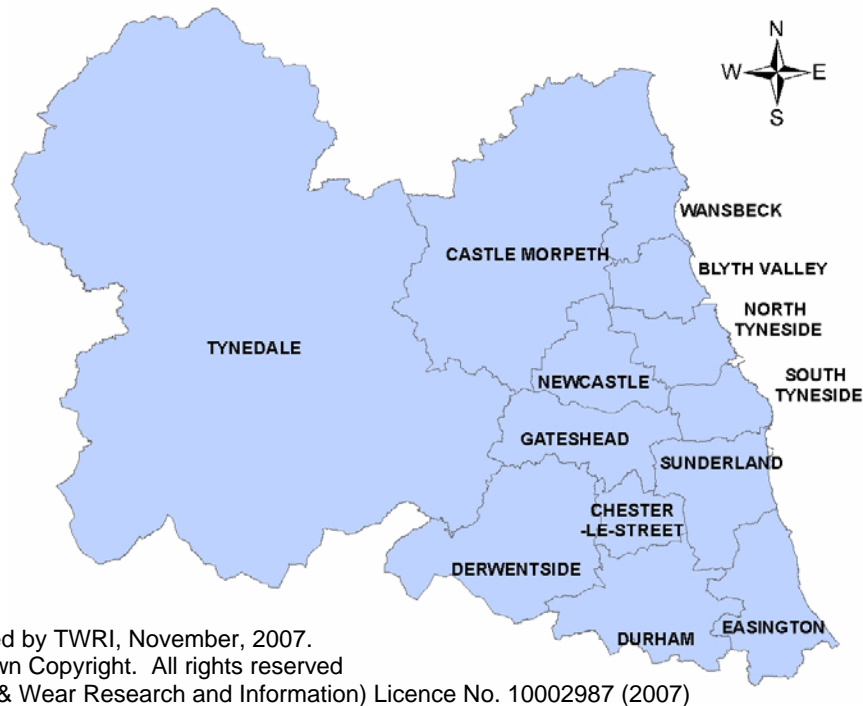


Table 1.1 Distribution of Population within Tyne & Wear City Region, 2005

Tyne & Wear	65.4%	Durham (4)	19.5%	Northumberland (4)	15.2%
Gateshead	11.5%	Chester-le-Street	3.2%	Blyth Valley	4.9%
Newcastle-upon-Tyne	16.2%	Derwentside	5.2%	Castle Morpeth	3.0%
North Tyneside	11.7%	Durham	5.4%	Tynedale	3.6%
South Tyneside	9.1%	Easington	5.6%	Wansbeck	3.7%
Sunderland	16.9%				

Source: ONS Mid-Year Population Estimates, 2005

TWCR has a population of approximately 1.7 million, of which around 1 million are of working age²⁷. The population in TWCR is equivalent to 58% of Leeds CR, which has a total population of 2.9 million. Around 1.7 million of these are of working age, meaning that the population of working age in TWCR is equivalent to around 59% of that in Leeds City Region.

²⁵ 2003 is the present base year in the ONS main economic series.

²⁶ On the basis of providing a comparable series, the figures used in UK analysis are the average over the year rather than a point in time. This may differ from some previous reports in the series, but has been chosen to provide the most accurate analysis at the City Region level.

²⁷ Population figures taken from ONS Mid-Year Population Estimates for 2005. Working-Age Population figures taken from ONS Annual Population Survey for the year to end-Dec 2005.

Within TWCR, nearly two-thirds (65%) of the population are located in TW, 19% are in the four Durham districts and the remaining 15% in the four Northumberland districts.

TWCR's population during the period covered by this report was stable, rising by a very marginal 0.2% in 2001-2005. Population growth in Leeds CR was more than ten times larger than TWCR, but was still a fairly small increase of 2.9% over four years.

PART A: MARKET SERVICES IN TYNE & WEAR CITY REGION

2. MARKET SERVICES OUTPUT

- In 2005, market services output was £8,672m in TWCR, 2% of UK output (£453bn) and equal to half of output in Leeds CR (£17,425m).
- Other Business Services (OBS) was the largest market services in TWCR (26% of market services output) and both comparators (27% in Leeds City Region and the UK).
- In 2001-2005, market services output grew 16% in TWCR, faster than the UK (10%), but slower than Leeds CR (21%). Overall, output in TWCR rose in all top ten manufacturing industries.

2.1. STRUCTURE OF OUTPUT

The top ten market services by output accounted for 97% of the total market services output in both TWCR and Leeds CR. This analysis focuses on these top services. The top ten market services in both regions differed only in order.

Table 2.1: Output (GVA) of Top Ten Market Services in Tyne & Wear City Region and Tyne & Wear, with Leeds City Region and UK Comparison, 2005

SIC	2001 Rank	Service	Output (Gross Value Added)					
			Tyne & Wear City Region		Leeds City Region		UK	
			(£m)	% of total output	(£m)	% of total output	(£m)	% of total output
74	1	Other Business Services	2,261	26.1%	4,666	26.8%	121,690	26.8%
52	2	Retail Trade	1,519	17.5%	2,385	13.7%	60,507	13.3%
64	4	Post & Telecommunications	1,080	12.5%	1,333	7.6%	33,742	7.4%
51	3	Wholesale Trade	910	10.5%	2,668	15.3%	59,588	13.1%
55	5	Hotels & Restaurants	633	7.3%	987	5.7%	28,511	6.3%
72	7	Computing	541	6.2%	878	5.0%	36,004	7.9%
50	6	Motor Trade	439	5.1%	1,180	6.8%	22,463	5.0%
60	10	Land Transport	385	4.4%	659	3.8%	17,820	3.9%
70	8	Real Estate	335	3.9%	882	5.1%	25,055 *	5.5%
63	9	Transport Support	303	3.5%	1,192	6.8%	21,554	4.8%
		Total	8,407	97.0%	16,830	96.6%	426,934	94.2%
		All Market Services	8,672	100.0%	17,425	100.0%	453,330	100.0%

Totals may not sum due to rounding

* The figure for UK Real Estate comes from a different ABI dataset

Caution: GVA includes subsidiaries, which for Land Transport's bus & rail operators could be around half of their output.

In 2005, the value of market services output from Tyne & Wear City Region (TWCR) was £8,672m, 2% of the UK total (£453bn) (Table 2.1). TWCR's market services output was equal to half²⁸ the output in Leeds City Region (Leeds CR), which, at £17,425m, was 4% of the total UK in 2005.

²⁸ 49.8%.

Both CRs have a lower share of UK market services output than of UK manufacturing²⁹. This partly reflects lower incomes in both CRs, which leads to lower demand for consumer services.

Market services output in TWCR is more concentrated on the top four services than either Leeds CR or the UK. The top four services account for 67% of total market service output in TWCR, 3pp³⁰ more than Leeds CR (63%) and 6pp more than the UK (61%). TWCR is slightly less dependent on output from its top market service [Other Business Services] than its comparators, but markedly more dependent on the following two services [Retail Trade and Post & Telecoms].

TWCR is most dependent on output from Other Business Services (OBS), but (marginally) less so than its comparators. In TWCR in 2005, OBS created the largest share of market services output (26%, £2,261m) [just] 1pp³¹ less than Leeds CR (27%, £4,666m) and the UK (27%, £122bn).

Other Business Services' share of output rose 2pp in TWCR in 2001-2005: growth (of share of market services output) matched the rise in the UK (2pp) but was less than half as fast as growth in Leeds CR (4pp)³². The slower growth in TWCR and the UK was due to poor performance in 2001-2003, when share of output fell in TWCR and remained the same in the UK. The share of output in Leeds CR rose in 2001-2003 and 2003-2005.

Box 2.1 Other Business Services: Structure & Employment, 2005

OBS is a very mixed category with over one-fifth of its jobs in professional services (SIC 74.1), but two-fifths in recruitment agencies or industrial cleaning (SIC 74.5 and 74.7 respectively). A further one-fifth of jobs are within 'Misc. Other Business Activities', which includes call centres.

Higher-value activities contribute a smaller proportion to OBS employment in TWCR than the UK or Leeds CR: Professional services contribute 22% to OBS employment in TWCR, 7pp less than the UK and 5pp less than Leeds CR. In contrast, Industrial Cleaning contributes 18% to OBS employment in TWCR, 4pp more than the UK and 2pp more than Leeds CR. Likewise, Misc. Other Business Activities contributes 4pp more to OBS employment in TWCR (19%) than both comparators (15%).

Employment in Other Business Services in Tyne & Wear City Region, Tyne & Wear, Leeds City Region and Great Britain, 2005

SIC (2003)	Tyne & Wear City Region		Tyne & Wear		Leeds City Region		Great Britain	
	number of employees	% share of OBS	number of employees	% share of OBS	number of employees	% share of OBS	number of employees	% share of OBS
74.1	16,200	22%	13,400	22%	38,000	27%	936,400	29%
74.2	7,500	10%	6,200	10%	14,200	10%	314,800	10%
74.3	1,600	2%	700	1%	1,100	1%	38,800	1%
74.4	900	1%	800	1%	2,400	2%	79,300	2%
74.5	16,200	22%	13,600	23%	32,500	23%	754,900	23%
74.6	4,100	6%	3,400	6%	7,700	6%	165,200	5%
74.7	13,400	18%	10,700	18%	23,500	17%	440,200	14%
74.8	13,700	19%	11,500	19%	21,000	15%	491,500	15%
74	73,600		60,300		140,300		3,221,100	

Source: ABI Employee Analysis, ONS on NOMIS web

TWCR is also markedly more dependent on Retailing than its comparators. Retail's share of output in TWCR in 2005 was 18% (£1,519m), markedly higher than both Leeds CR (14%, £2,385m) and the

²⁹ For more information, see 'Manufacturing Performance in the Tyne & Wear City Region', TWRI

³⁰ The difference appears to be wider, due to rounding.

³¹ 1pp means 1 percentage point.

³² Share of output in Other Business Services rose 1.6% in TWCR and 1.7pp in the UK in 2001-2005.

UK (13%). TWCR's higher dependency on Retail output might reflect the presence of several large Retail Centres in the CR, including the MetroCentre, Gateshead³³. It seems that TWCR's Retail output is being supported by high spending of residents and/or net inflows from non-residents. Other research, published by NERIP, suggests that the retail catchment area is larger than the TWCR area used here.

Retail's share of output rose marginally (0.8pp) in TWCR in 2001-2005, but fell in both Leeds CR (-2pp) and the UK (marginally, -0.6pp).³⁴

The output of each market service in an area can be compared to the corresponding service in the UK by using the 'output location quotient' (Table 2.2). This divides the local share of market services output by the corresponding UK share of market services output to give a measure of local concentration.

Table 2.2: Output Location Quotient of Top Ten Manufacturing Industries in Tyne & Wear City Region and Leeds City Region, 2005

SIC	Service	Output Location Quotient	
		Tyne & Wear City Region	Leeds City Region
74	Other Business Services	0.97	1.00
52	Retail Trade	1.31	1.03
64	Post & Telecommunications	1.67	1.03
51	Wholesale Trade	0.80	1.16
55	Hotels & Restaurants	1.16	0.90
72	Computing	0.79	0.63
50	Motor Trade	1.02	1.37
60	Land Transport	1.13	0.96
70	Real Estate	0.70	0.92
63	Transport Support	0.74	1.44

TWCR is very strongly over-represented in Post & Telecoms (by a massive 67% compared to the UK) and Retail (by 31%)³⁵. In TWCR in 2005, the other three top ten market services over-represented relative to the UK were: Hotels & Restaurants (1.16), Land Transport (1.13) and Motor Trade (1.02).

Post & Telecoms (presumably mostly Telecoms) is TWCR's third-largest market service. TWCR is much more dependent on the industry than its comparators. Post & Telecoms' share of output in TWCR in 2005 was 13% (£1,080m), well above both Leeds CR (8%, £1,333m) and the UK (7%).

Box 2.2 Possible Reasons for Telecoms being so Large in TWCR

The reasons for TWCR's high output in Posts & Telecoms remain unclear, but four possibilities are given here.

1) Cable TV (and telecoms) could well be one important reason. This is a very capital-intensive industry, which thus would have boosted labour productivity significantly. It could go some way to accounting for TWCR Post & Telecoms industry's productivity of £72,200 (13% above the UK).

³³ Other examples include Eldon Square, Newcastle; Royal Quays, North Tyneside; and the Bridges Shopping Centre, Sunderland.

³⁴ Again, TWCR shows signs of following the UK, but of potentially lagging behind Leeds CR. Retail's share of output in TWCR and the UK rose in 2001-2003, but fell in 2003-2005, while share of output fell in both periods in Leeds CR.

³⁵ The shares of output held by the top four market services in TWCR are markedly different from those in the UK. Fluctuations in 2001-2003 and 2003-2005 in TWCR and the UK were broadly similar. In contrast, shares of output in Leeds CR were much more stable than in the UK.

Moreover this is an urban phenomenon, and thus could explain the high level in TW.

2) Satellite TV is also a high productivity activity. It is not clear, however, that this activity is recorded locally. A low estimate of say 200,000 homes paying £300pa would give revenues of at least £60m pa.

3) Call centres for Telecoms firms (BT, Orange, T-Mobile etc.) should be in this SIC category, and not under Business Services. It is very hard to believe, however, that these call centres have productivity levels to match the above high levels.

4) Mobile phone contracts serviced from call centres in TW. If these are credited to output from TWCR, then this could have boosted the output (and thus productivity) figures.

Post & Telecoms' share of total output fell in 2001-2005 [marginally] faster in TWCR (-1pp) than both comparators³⁶ [possibly due to TW's earlier adoption, and thus earlier maturity, of cable and satellite TV]^{37, 38}.

TWCR is *less* dependent on Wholesale Trade (its fourth-largest market service by output) than its comparators. Wholesale is the third-largest market service in both Leeds CR and the UK, above Post & Telecoms. In 2005, Wholesale's share of market services output in TWCR was 11% (£910m), less than the UK (13%) and much less than Leeds CR (15%, £2,668m). The share of output in TWCR fell 1.3pp in 2001-2005, faster than Leeds CR (no change) but matching the fall in the UK. [This might reflect the faster displacement by 'integrated retailers'³⁹ in TWCR of small retailers, who use wholesalers].

Leeds CR, by contrast, showed some evidence of a role as a 'distribution hub', but not in Retail; Transport Support and Wholesale Trade were over-represented, but under-represented in TWCR. The market services sector in 2005 was slightly more diverse in Leeds CR, where six top ten market services matched, or exceeded, the UK share of output: Transport Support (1.44), Motor Trade (1.37), Wholesale (1.16), Post & Telecoms (1.03), Retail Trade (1.03) and Other Business Services (1.00).

The remaining five top ten market services in TWCR, and the remaining four top ten services in Leeds CR, were *under*-represented in 2005. TWCR's under-representation was greatest in Real Estate (0.70) [reflecting relatively low commercial property values, plus low home ownership, lower house prices and, perhaps, lower housing turnover⁴⁰] and Transport Support (0.74). Both CRs were significantly under-represented in Computing, although the extent of this was greater in Leeds CR (0.63) than TWCR (0.79) [TWCR may have been supported by the presence of Sage, which has its HQ in Newcastle⁴¹].

2.2. CHANGE IN OUTPUT

Between 2001 and 2005, market services real output in Tyne & Wear City Region (TWCR) grew 16% (by £1,126m), from £7,149m in 2001 to £8,275m in 2005⁴² (all in 2003 prices). Market services output grew across a very wide front in 2001-2005; it grew in *all top ten* market services in TWCR (Fig 2.1). Growth in TWCR was faster than the UK.

³⁶ Share of output in Post & Telecoms fell -1.2pp in TWCR, -0.9pp in Leeds CR and -0.1pp in the UK in 2001-2005.

³⁷ This is consistent with ONS Family Spending data, which show high spending on TV services in the NE.

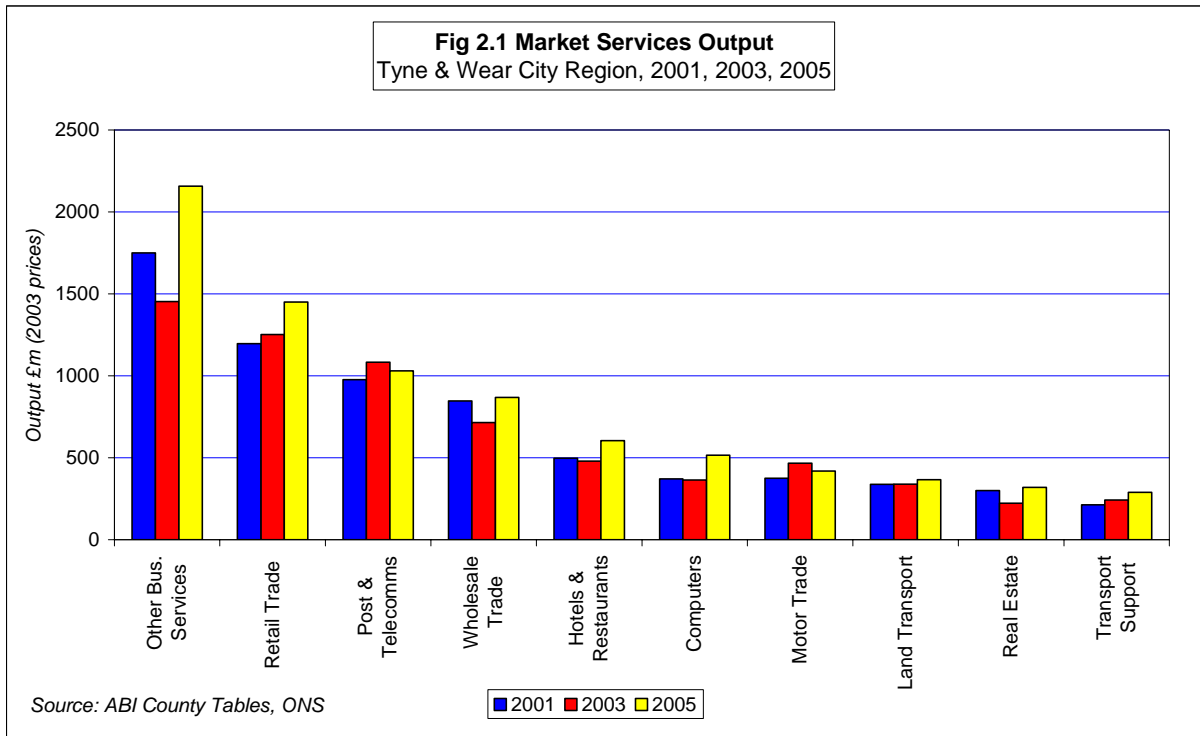
³⁸ Change in TWCR again followed the pattern in the UK (with share of output rising in 2001-2003 but falling in 2003-2005) but share of output in Leeds CR again fell in both periods.

³⁹ The major grocery chains (Tesco, ASDA, Sainsbury and Morrison) are understood not to use wholesalers, but buy directly from producers.

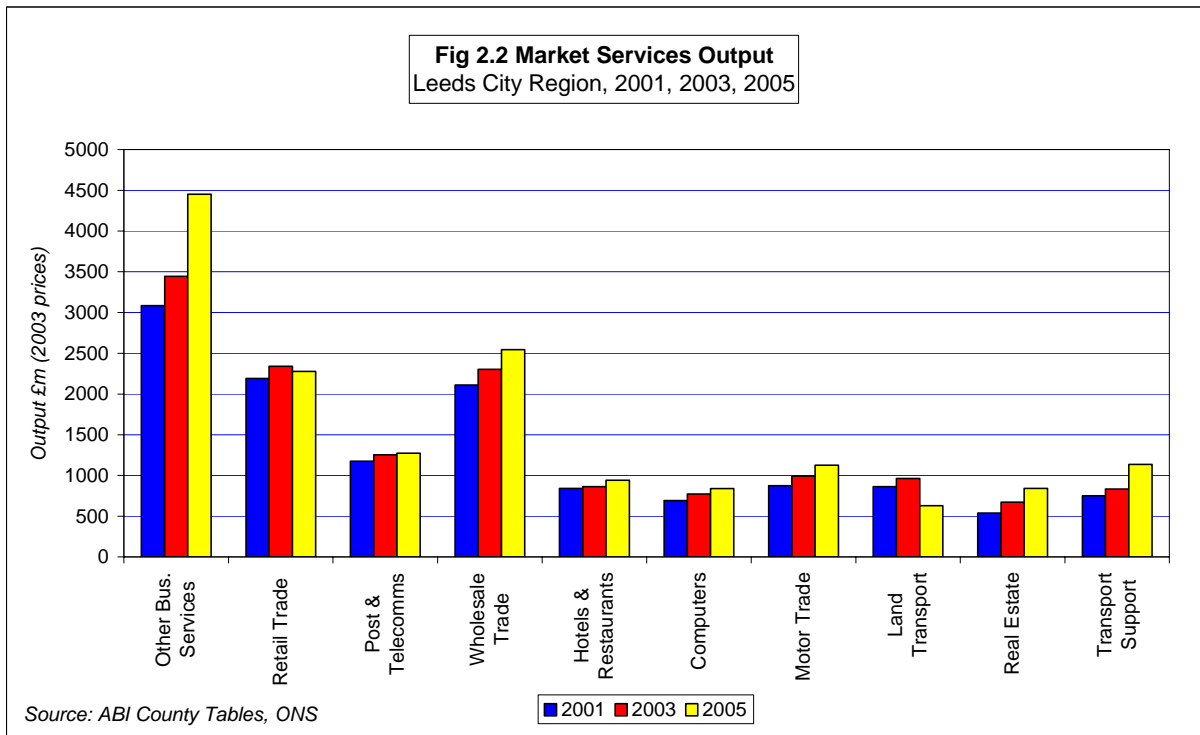
⁴⁰ It also probably reflected lower property development than in Leeds CR.

⁴¹ Strictly, as an HQ, the Sage Operation should have been coded in 2005 to Business Services.

⁴² It fell -5% (- £319m) in 2001-2003, but recovered very strongly in 2003-2005, rising 21% (£1,445m).



Nevertheless, market services grew about one-third faster in Leeds City Region (Leeds CR)⁴³ (up 21%) as in TWCR (up 16%). All but one top ten market services⁴⁴ grew in Leeds CR (Fig 2.2).



⁴³ As observed in the previous section, growth in TWCR and the UK followed similar trajectories of growth (rising and falling in the same periods), in contrast to Leeds CR.

⁴⁴ Again using the Tyne & Wear City Region top ten by output.

Market services output in Leeds CR grew 21% (£2,829m) in 2001-2005 (from £13,798m in 2001 to £16,627m in 2005), more than 4pp faster than in TWCR. Moreover, growth was more stable in Leeds CR than TWCR, rising 8% (£1,162m) in 2001-2003 (when output in TWCR fell) and 11% (£1,667m) in 2003-2005⁴⁵.

Output growth in the UK was 10% (£35bn) in 2001-2005 (to £433bn in 2005), 6pp slower than TWCR. Output remained the same in 2001-2003 but rose 10% in 2003-2005. Thus growth in both TWCR and the UK was overwhelmingly in the later period 2003-2005; despite these overall similar trajectories TWCR's growth in 2003-2005 was more than twice as fast as in the UK. Over the full four years, all but two UK top ten market services grew.

Four of the top ten market services in TWCR, mostly 'consumer services', grew *faster* than both Leeds CR and the UK;

- Retail,
- Hotels & Restaurants,
- Land Transport⁴⁶,
- Computing⁴⁷.

A further three 'business services' appeared to follow a pattern where growth in TWCR was *slower* than Leeds CR but more rapid than the UK (Other Business Services, Wholesale and Motor Trade⁴⁸). [In Transport Support, growth was fast but still did not match the UK.]

Growth in TWCR's remaining two services (Post & Telecoms and Real Estate) was *slower than both* Leeds CR and the UK. The reasons seem different. Post & Telecoms had been very over-represented in TWCR in 2001, relative to its share of output in the UK (and thus TWCR may have matured earlier). Real Estate continues to lag behind national output and growth.

In TWCR in 2001-2005, growth was rapid (over 20%) in five market services:

- Computing (up 39%),
- Transport Support (36%),
- Other Business Services (23%),
- Hotels & Restaurants (21%) and
- Retail (21%).

The slowest growth was in Wholesale (just 3%) [which has been in long-term relative decline as big retailers by-pass Wholesalers –Ed].

TWCR's *largest absolute growth* in output was in Other Business Services (the largest service by output), whose output rose £407m (23%) (based on 2003 prices). Growth in OBS thus accounted for about two-fifths of all growth in market services output⁴⁹. Overall, output growth in OBS in TWCR was only around half as fast (-21pp slower) as Leeds CR, where output rose 44% (£1,368m). However, the growth in TWCR was more than 6pp faster than in the UK (up 17%, £17bn).

TWCR's *fastest growth* was in Computing, where output rose 39% (£146m) in 2001-2005⁵⁰. The growth in TWCR was 18pp faster than Leeds CR, where Computing output rose 21% (£147m) in

⁴⁵ Caution: This could be due to the larger sample size in Leeds CR and hence relatively lower sampling error.

⁴⁶ Land Transport serves both business and consumer markets.

⁴⁷ Computing is the main exception, being a business service.

⁴⁸ The Motor Trade is the exception in the group, as it is mainly a consumer service.

⁴⁹ Output in OBS fell £297m (17%) in 2001-2003 to £1,453m, but made a dramatic recovery in 2003-2005, rising 50% (£704m).

⁵⁰ Computing growth in TWCR will have included the establishment and rapid growth of TSG, in 2003 [in Gateshead and North Tyneside]. This rapid growth in output was in the latter two years (2003-2005), as Computing output fell 2% (-£6m) in 2001-2003.

2001-2005. In contrast to TWCR, however, Computing output in Leeds CR rose in both periods, up 12% (£83m) in 2001-2003 and a further 8% (£64m) in 2003-2005. The rise in TWCR was 20pp faster than in the UK, where output rose 20% (£5.6bn).⁵¹

Growth in TWCR was also rapid in Transport Support (a small industry), rising 36% (£75m) in 2001-2005. [Reported job gains show this as essentially large travel agencies, but it could reflect rapid growth of port and airport activity too]. TWCR's rise was 12pp more rapid than the UK, where output rose 24% (£4bn). Despite this, growth in TWCR was 16pp slower than Leeds CR (51%, £385m).

Growth in TWCR was slowest in Wholesale Trade, rising just 3% (£22m)⁵². The overall 3% rise in output in Wholesale in TWCR was 18pp slower than growth in Leeds CR (21%, £434m), but 2pp faster than the UK (0.2%, £96m)⁵³.

⁵¹ *Computing output in the UK also rose in both periods, although the rise in 2003-2005 (15%) was almost four times as fast as in 2001-2003 (4%).*

⁵² *Wholesale output rose 21% (£153m) in 2003-2005, but this only just recovered from a -16% (£131m) fall in 2001-2003.*

⁵³ *TWCR and the UK again followed similar growth patterns, as Wholesale output in the UK rose by a healthy 7% in 2003-2005, but only just recovered from an earlier fall (-6%). In contrast, output in Leeds CR rose 9% in 2001-2003 and a further 11% in 2003-2005.*

3. MARKET SERVICES EMPLOYMENT

- In 2005, market services employed 281,000 in TWCR.
- Employment was highest in Retail and Other Business Services –together accounting for about half the job in market services.
- Employment in TWCR grew 12% in 2001-2005 (up 30,000), one-third faster than Leeds CR (up 9%) and twice as fast as growth in the UK (up 6%).

3.1. EMPLOYMENT LEVELS

In 2005, market services employment in Tyne & Wear City Region (TWCR) was 281,000⁵⁴, 2% of UK market services employment and equal to 51% of Leeds CR (551,000) (Table 3.1).

Table 3.1: Employment in Top Ten Market Services in Tyne & Wear City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Tyne & Wear City Region		Leeds City Region		UK	
		Number	% of total	Number	% of total	Number (th)	% of total
74	Other Business Services	69,100	24.6%	126,500	22.9%	3,416	25.7%
52	Retail Trade	74,200	26.4%	143,700	26.1%	3,109	23.4%
64	Post & Telecommunications	15,000	5.3%	18,700	3.4%	529	4.0%
51	Wholesale Trade	19,100	6.8%	60,900	11.0%	1,212	9.1%
55	Hotels & Restaurants	45,100	16.1%	75,400	13.7%	1,916	14.4%
72	Computing	10,200	3.6%	14,800	2.7%	585	4.4%
50	Motor Trade	12,600	4.5%	28,000	5.1%	628	4.7%
60	Land Transport	12,400	4.4%	23,400	4.2%	581	4.4%
70	Real Estate	9,700	3.5%	20,500	3.7%	498	3.8%
63	Transport Support	7,200	2.6%	28,400	5.1%	416	3.1%
	Top Ten Services	274,500	97.8%	540,200	98.0%	12,890	97.1%
	All Market Services	280,700		551,400		13,275	

Totals may not sum due to rounding

In TWCR in 2005, employment was more than 10,000 in eight of the top ten market services and over 25,000 TWCR in three services; Retail (74,200), Other Business Services (69,100) and Hotels & Restaurants (45,700). Market services employment is overwhelmingly based in the top two industries by output; a dramatic 50% of market services jobs are in Other Business Services and Retail. Employment was lowest in Transport Support (7,200) and Real Estate (9,700) [the two smallest services by output], which together contributed just 6% of total market services employment.

In 2005, employment in the top ten market services in Leeds CR was also highest in Retail (143,700) and Other Business Services (126,500), but was lowest in Computing (14,800).

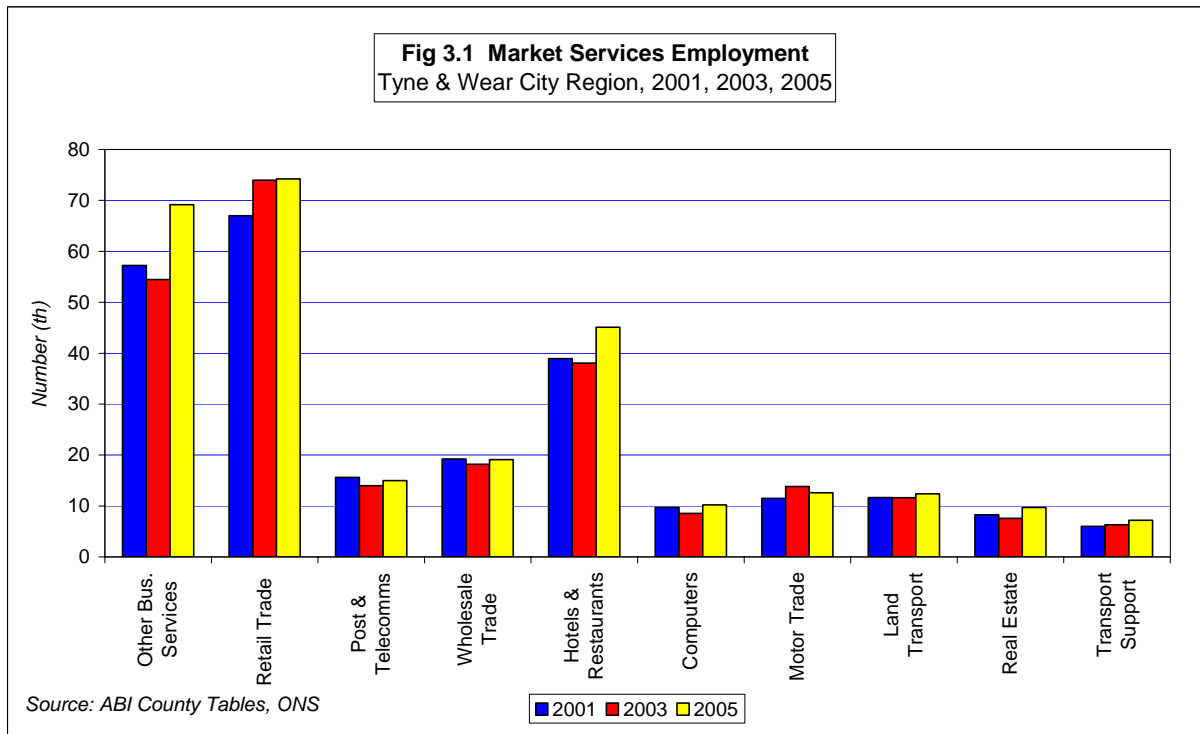
The proportion of market services employment attributable to Post & Telecoms (5.3%) and Hotels & Restaurants (16.1%) is, however, much higher in TWCR than its comparators.

Conversely, employment in Wholesale Trade in TWCR (7%) is much smaller than Leeds CR (11%) or the UK (9%) as a proportion of total market services employment. Employment in Transport Support in TWCR is less than half the proportion employed in Leeds CR (but only marginally less than the UK).

⁵⁴ This is 28% of the population of working age in TWCR.

3.2. CHANGE IN EMPLOYMENT

In 2001-2005, TWCR's market services employment grew 12% (30,000) from 251,000 in 2001⁵⁵. Employment growth in TWCR was much faster (1 1/3 times) than Leeds CR (9%, up 43,000) and twice that of the UK (6%) (Fig 3.1). Employment growth was, however, steadier in Leeds CR and the UK, where employment rose in both 2001-2003 and 2003-2005.



Between 2001 and 2005, employment in TWCR rose in eight of the top ten market services). TWCR followed the UK pattern; employment grew in all top ten market services except Post & Telecoms and Wholesale. TWCR's employment rises were markedly faster, and declines slower, than in the UK.

TWCR's largest *absolute* growth in jobs was in the three services with the biggest employment:

- Other Business Services [OBS] (21%, up 11,900)
- Retail (11%, up 7,200)
- Hotels & Restaurants (16%, up 6,100)

Thus these three services, which account for about two-thirds of all market service jobs, generated about four-fifths (24,000) of the net employment growth from *all* market services (30,000).

TWCR's OBS employment growth seems to have been slow in professional services (exc. Consultancy) and significantly faster in low productivity activities like agency work (see Box 3.1).

⁵⁵ The rise in market services employment overwhelmingly took place in 2003-2005 (11%) after employment rose by a marginal 0.4% in 2001-2003.

Box 3.1 Employment Growth within TWCR's Other Business Services, 2001-05

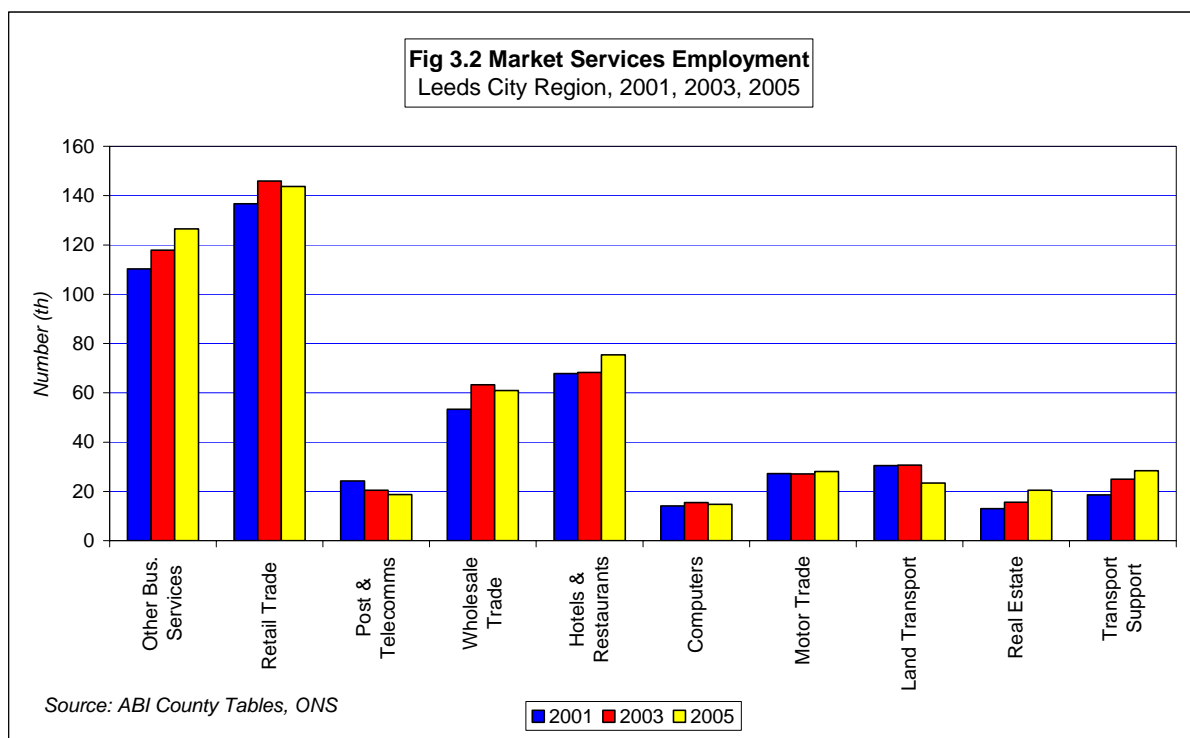
		Leeds CR	UK
Labour Recruitment & Provision of Personnel	up 5,000 (up 45%)	32%	8%
Business & Management Consultancy	up 1,100 (up 46%)	29%	31%
Industrial Cleaning	up significantly (ONS suppressed data)	-1%	6%
Call centres	} Data suppressed by ONS		
Holding companies	} but combined growth could be up to about 8,000		
Legal	up 700 (up 13%)	27%	8%
Accountancy	down -200 (-5%)	16%	6%
Market research	up 900 (up 216%)	76%	36%

Source: ONS ABI via NOMISweb Caution: employment change numbers are not the same as in the dataset used for rest of this report.

Employment also rose by over 1,000 in; Real Estate (17%, up 1,400), Transport Support (19%, up 1,200) and the Motor Trade (10%, up 1,100)

Employment in TWCR fell in two of the top ten market services in 2001-2005, both of which were business services; Post & Telecoms (-4%, down 600) and Wholesale Trade (-0.5%, down 100) [Job change data suggest that job losses from the Post Office and BT have exceeded gains in other telecoms providers]. Employment also fell in Post & Telecoms in Leeds CR but much more rapidly (-23%). Conversely Leeds CR's employment rose in the Wholesale Trade (14%)⁵⁶.

Employment in Leeds CR also rose in eight of the top ten market services in 2001-2005 and rose by more than 1,000 in six of these services (Fig 3.2). In contrast to TWCR, the largest rises were not exclusive to the services with the highest employment.



⁵⁶ Perhaps some of this is linked in some way to Morrison's takeover of Safeway.

Leeds CR's largest numeric employment growth was in Other Business Services (15%, up 16,300), but growth was over 50% in Real Estate (59%, up 7,600) and Transport Support (52%, up 9,700).

Other Leeds CR employment rises of more than 5,000 were in;

- Wholesale (+14%, up 7,600)
- Hotels & Restaurants (11%, 7,500)
- Retail (5%, 7,000)

In summary, employment growth in TWCR was faster than in Leeds CR in 2001-2005⁵⁷ in six of the top ten market services (Other Business Services, Retail, Hotels & Restaurants, plus Computing, Motor Trade and Land Transport) - perhaps reflecting overall faster economic growth in TWCR.

[Also employment in Post & Telecoms fell in TWCR much more slowly (-4%, down 600) than in Leeds CR (-23%, down 5,600).]

Changes in employment in TWCR were less favourable than Leeds CR in the remaining three services (Wholesale Trade, Real Estate and Transport Support).

Employment growth was more favourable in TWCR than the UK in nine of the top ten market services (all except Real Estate).

⁵⁷ As a % of the 2001 workforce.

4. MARKET SERVICES PRODUCTIVITY

- TWCR productivity (GVA per employed person) was £30,900 in 2005, 10% less than the UK.
- Productivity grew just 3% in TWCR in 2001-2005, much slower than growth in Leeds CR (11%) and slightly less than the UK (4%). Productivity in TWCR has thus fallen behind Leeds CR (by 2%), from being 5% ahead in 2001.
- Productivity growth in TWCR in Other Business Services (2%) was particularly weak compared with Leeds CR (26%). This is suspected to be due to the employment growth of OBS in TWCR being in lower productivity services than in Leeds CR.

4.1 PRODUCTIVITY LEVELS

Productivity: Definition, Rounding and the Effect of Part-Time Employees

- a) Productivity levels are a measure of efficiency in the use of labour and provide a guide towards future output and employee performance. Productivity is defined as 'Gross Value Added per Employee' in this report.
- b) Productivity figures have been rounded to the nearest £100 in the text, but the un-rounded figures are retained in table 11.1 in order to allow readers to perform their own calculations or analyses should they wish to do so.

Caution: Productivity is calculated simply per employee. There is substantial *part-time* employment within market services, which depresses the average relative to manufacturing.

In 2005, market services productivity in Tyne & Wear City Region (TWCR) (£30,900) was 2% below Leeds City Region (Leeds CR) (£31,600) and 10% below the UK (£34,100) (Table 4.1).

Table 4.1: Productivity Levels in Top Ten Market Services in Tyne & Wear City Region, with Leeds City Region and UK Comparison, 2005 (current prices)

SIC	Service	Tyne & Wear City Region £	TWCR as Index of UK (UK=100)	Leeds City Region £	LCR as Index of UK (UK=100)	UK £
74	Other Business Services	32,695	0.92	36,877	1.04	35,624
52	Retail Trade	20,467	1.05	16,597	0.85	19,462
64	Post & Telecommunications	72,183	1.13	71,296	1.12	63,784
51	Wholesale Trade	47,622	0.97	43,831	0.89	49,165
55	Hotels & Restaurants	14,049	0.94	13,094	0.88	14,880
72	Computing	53,051	0.86	59,493	0.97	61,545
50	Motor Trade	34,866	0.97	42,147	1.18	35,769
60	Land Transport	31,148	1.02	28,178	0.92	30,671
70	Real Estate	34,596	0.69	43,005	0.85	50,311 *
63	Transport Support	42,341	0.82	42,020	0.81	51,813
	All Market Services	30,893	0.90	31,600	0.93	34,149

Totals may not sum due to rounding

*The figure for UK Real Estate comes from a different ABI dataset

Note: Overall productivity in Tyne & Wear City Region has been depressed somewhat by the severe (-22%) drop in productivity in Renting Machinery & Equipment, which would depress the overall average by approximately 0.25pp. Productivity is much higher in Air Transport (about £86,500), which does not reach the top ten market services in terms of output (see Appendix 4.1), being 12th.

In TWCR in 2005, market services productivity was highest in Post & Telecoms (£72,200), Computing (£53,100), Wholesale Trade (£47,600) and Transport Support (£42,300).

Productivity was lowest in Hotels & Restaurants (£14,000) followed by Retail Trade (£20,500) [Both of which partly reflect high part-time working. Hotels & Restaurants and Retail are two of the three services with the highest employment figures in TWCR –Ed].

Box 4.1: Productivity in Tyne & Wear City Region Relative to the UK

TWCR productivity levels *above the UK* in 2005 in three market services;

Post & Telecoms	(TWCR £72,200, +13%,	UK £63,800)
Retail	(TWCR £20,500, + 5%,	UK £19,500)
and Land Transport	(TWCR £31,200, + 2%,	UK £30,700).

Productivity growth in TWCR was *slightly below the UK* in;

Other Business Services	(TWCR £32,700, -8%,	UK £35,600)
Hotels & Restaurants	(TWCR £14,000, -6%,	UK £14,900)
Wholesale Trade	(TWCR £47,600, -3%,	UK £49,200)
Motor Trade	(TWCR £34,900, -3%,	UK £35,800)

Productivity growth in TWCR was *well below the UK* in;

Real Estate	(TWCR £34,600, -31%,	UK £50,300)
Transport Support	(TWCR £42,300, -18%,	UK £51,800)
Computing	(TWCR £53,100, -14%,	UK £61,500)

Productivity was *higher than Leeds CR* in six of the top ten services: Retail, Land Transport, Wholesale, Hotels & Restaurants, Post & Telecoms and Transport Support.

This appears to have been most evident in consumer services. Productivity in Retail in TWCR (£20,500) was a remarkable 23% (£3,900) above Leeds CR (£16,600) [Retail’s share of output is markedly higher in TWCR than Leeds CR, but their respective shares of employment are the same]. Similarly, productivity in Land Transport in TWCR (£31,100) was 11% (£3,000) higher than Leeds CR (£28,200).

Productivity was more than 10% *lower* in TWCR than Leeds CR in the four remaining (mainly business-) services; Other Business Services (-11%, -£4,200) and Computing (-11%, -£6,400) and, most markedly, Real Estate (-20%, -£8,400) and the Motor Trade (-17%, -£7,300).

TWCR’s lower productivity in OBS is especially important as this is often seen as *the* key service sector. Actually OBS is a very mixed bag (as shown in Box 2.1).

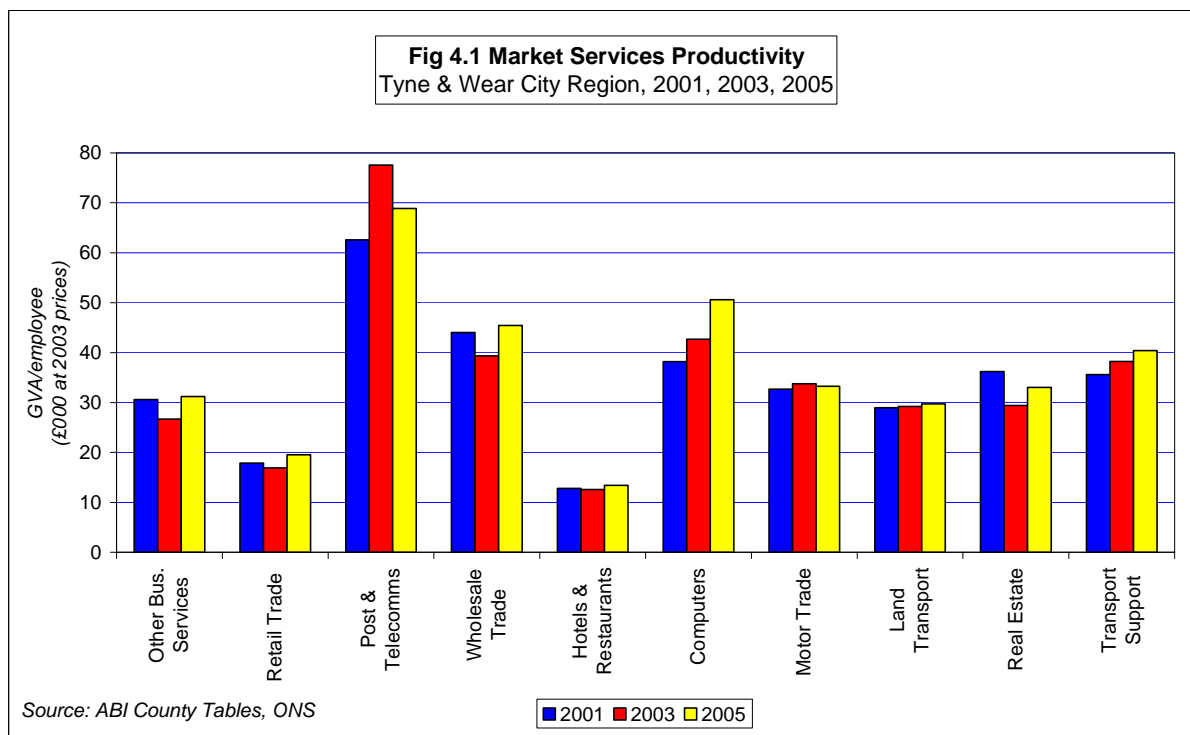
4.2 PRODUCTIVITY GROWTH

In 2001-2005, market services productivity in TWCR grew just 3% (£1,000) from £28,500 in 2001 to £29,500 in 2005, an average of less than 1% per annum (2003 prices). Growth in TWCR was less than one-third as fast as Leeds City Region (Leeds CR) (11%) and slightly slower than the UK (4%).

TWCR’s productivity level has fallen behind Leeds CR. In 2001, productivity in TWCR was 5% (£1,300) higher than Leeds CR (£27,200) but fell 7pp (relative to Leeds CR) in 2001-2005, to 2% (-£700) below Leeds CR in 2005.⁵⁸

⁵⁸ The slower productivity growth in TWCR, relative to its comparators, can be attributed to a -5% (-£1,400) fall in 2001-2003 [output fell in this early period]. While productivity improved in 2003-2005, rising 9% (£2,400), it failed to significantly recover from the earlier fall.

Productivity rose broadly across Market Services in 2001-2005; in nine of the top ten services in TWCR (all except Real Estate) (Fig 4.1) – more than the six in Leeds CR (Fig. 4.2) and seven in the UK.



The fastest growth in TWCR was in Computing, where productivity rose 33% (£12,400) (from £38,200 in 2001 to £50,600 in 2005)⁵⁹, 14pp faster than in the UK. Growth in TWCR was also strong (more than 10%) in Transport Support (14%, £4,800) and Post & Telecomms (10%, £6,200). The only major service in TWCR where productivity *fell* in 2001-2005 was Real Estate, down -9% (-£3,200)⁶⁰.

Productivity growth in TWCR was faster than the UK in eight of the top ten market services in 2001-2005; oddly, all except Post & Telecomms (TWCR 10%; UK 18%) and Other Business Services (2%; UK 4%).

[This is remarkably weak productivity growth in the key OBS, in both areas. Productivity in OBS rose dramatically in Leeds CR, up 26% –Ed].

In contrast, productivity growth in Leeds CR was more stable than TWCR, rising in both 2001-2003 (2%, £550) [helped by output growth] and in 2003-05 (9%, £2,400).

Productivity growth in TWCR followed the general trajectory in the UK (falling in 2001-2003 and rising in 2003-2005). This resulted in similar overall rates of growth in 2001-2005, although growth in TWCR fluctuated much more sharply than the UK. The decline in productivity in TWCR in 2001-2003 (-5%) was almost three times as rapid (-3pp) as in the UK (-2%), but growth in 2003-2005 was 1½ times as fast in TWCR (9%) as the UK (6%).

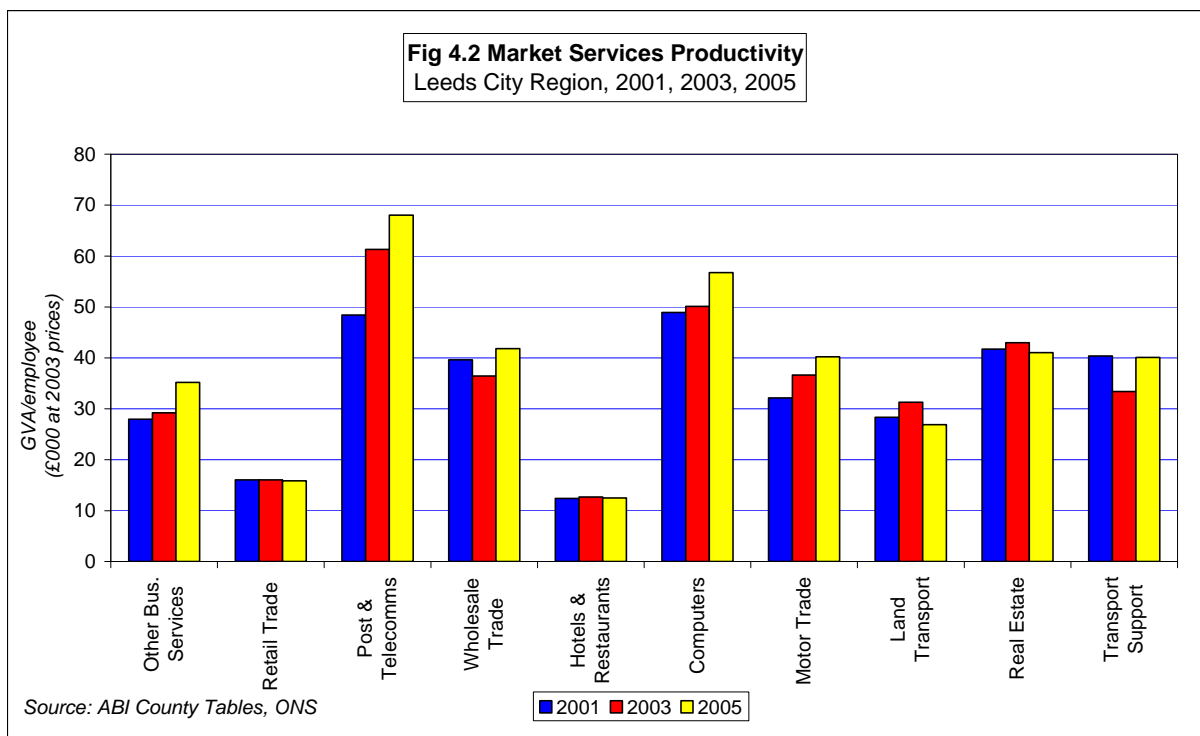
⁵⁹ As this relates to TWCR, and not either TW or RoCR, it is not affected by any problems with geographical location between TW and RoCR.

⁶⁰ Productivity in Leeds CR fell in Land Transport (-5%, -£1,400), Real Estate (-2%, -£700), Retail (-1%, -£200) and Transport Support (-1%, -£300). UK productivity fell in Real Estate (-14%, -£7,900), the Motor Trade (-5%, -£1,850) and Land Transport (-2%, -£600).

Box 4.2: How Growth of Low Productivity activities can slow overall Productivity Growth

Example is applied to OBS (but it could be applied across the whole Market Services sector):
 If employment grew 10% [of all OBS employment] in very low value-added activities (such as, say, labour agencies, industrial cleaning and call centres), say with average productivity of around £15,000 per head, half that of OBS, then;
 [TWCR's] overall OBS productivity growth is depressed by 5% (say from 7% to 2%).

Conversely, if in another area (or time), employment grew 10% [of all OBS employment] in relatively *high* value-added activities (say perhaps law, architecture, accountancy, consultancy etc.) with average productivity more like £45,000 per head, then this adds about 5pp to the overall OBS growth of productivity. This structural effect could push up the overall growth of OBS productivity by 5pp.



5. MARKET SERVICES OPERATING PROFIT

In this section, operating profits are considered in terms of both levels and, in particular, margins. In a healthy economy, in the long-run, profit levels will grow as output grows (margins may rise with globalisation)⁶¹. However, profits tend to be sharply cyclical –falling and rising in particular years within the business cycle.

Important: Changes in profits are given in real terms (2003 prices).

- TWCR operating profits were £4,310m in 2005. Operating profits in TWCR rose 20% in 2001-2005, slower than Leeds CR (24%) but double growth in the UK (10%).
- In 2005, operating profit margins averaged 50% in TWCR, 3pp above its comparators (47%).
- In 2001-2005, profit margins in TWCR rose 2pp, faster than both Leeds CR (up 1pp) and the UK (up just 0.3pp).

The meaning of operating profit:

One measure of profitability is operating profitability: the reward to capital from value added. An indication of operating profits can be obtained from the ABI data. Since, in principle, value-added is split between labour and capital, and rewards to labour are known, the rewards to capital can be calculated. ABI produce ‘Total Employment Costs’ data and so operating profits can be calculated directly by subtracting the ‘Total Employment Costs’ from the ‘Gross Value Added’.

Operating profit provides a good guide to financial health. It is not affected by differences in capital structure of a company (debt, equity [or share] capital). It is a wider concept than pre-tax profit. To obtain pre-tax profit, interest payments and depreciation would have to be subtracted.

5.1. OPERATING PROFIT LEVELS

In TWCR in 2005, market services operating profits were £4,310m (current prices) (Table 5.1).

Table 5.1: Market Services Operating Profit in Tyne & Wear City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Tyne & Wear City Region £m	Leeds City Region £m	UK £m
74	Other Business Services	1,003	2,133	54,533
52	Retail Trade	774	907	25,786
64	Post & Telecommunications	677	785	17,207
51	Wholesale Trade	497	1,278	29,488
55	Hotels & Restaurants	274	390	12,097
72	Computing	237	408	15,909
50	Motor Trade	218	684	11,789
60	Land Transport	120	167	5,907
70	Real Estate	184	505	16,496
63	Transport Support	151	516	10,266
	Total	4,135	7,773	199,478
	All Market Services	4,310	8,113	214,035

Totals may not sum due to rounding

⁶¹ Also, globalisation can push up the share of profits in developed countries, as labour costs are held down by international competition. See the Economist Newspaper feature on Globalisation in Sept. 2006 for a lucid exposition of this argument.

In 2001-2005, real operating profits in TWCR rose one-fifth (20%) from £3,416m in 2001 to £4,113m in 2005 (2003 prices)⁶². Growth in TWCR was almost twice as fast as in the UK, where real operating profits rose 10% in 2001-2005⁶³. Growth in TWCR was 3pp⁶⁴ slower than in Leeds CR, where real operating profits rose 24% (from £6,256m in 2001 to £7,742m in 2005)⁶⁵.

5.2. OPERATING PROFIT MARGINS

In 2005, profit margins in TWCR averaged 50%, 3pp above the UK and Leeds CR (both 47%) (Table 5.2).

Table 5.2: Market Services Operating Profit Margins in Tyne & Wear City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Tyne & Wear City Region	Leeds City Region	UK
74	Other Business Services	44%	46%	45%
52	Retail Trade	51%	38%	43%
64	Post & Telecommunications	63%	59%	51%
51	Wholesale Trade	55%	48%	49%
55	Hotels & Restaurants	43%	39%	42%
72	Computing	44%	46%	44%
50	Motor Trade	50%	58%	52%
60	Land Transport	31%	25%	33%
70	Real Estate	55%	57%	66%
63	Transport Support	50%	43%	48%
	Total	49%	46%	47%
	All Market Services	50%	47%	47%

Totals may not sum due to rounding

Profit margins in the top ten market services in TWCR in 2005 were highest in Post & Telecoms (63%) [This reflects the high capital-intensity of Telecoms and possibly cable TV etc.]. Profit margins were also high (above 50%) in Real Estate (55%), Wholesale Trade (55%) and Retail (51%).

Profit margins in the top ten market services in Leeds CR were also highest in Post & Telecoms (59%) and were above 50% in the Motor Trade (58%) and Real Estate (57%) [These are all capital-intensive services requiring capital, respectively, for equipment, vehicles and property].

In 2001-2005, operating profit margins in TWCR rose 2pp from 48% in 2001. This was 0.7pp stronger than growth in Leeds CR (+ 1pp) and 2pp faster than the UK (0.3pp). In 2001 profit margins in TWCR had been 1pp above the UK (47%) and 3pp above Leeds CR (45%).

In 2001-2005, profit margins in TWCR and Leeds CR rose in the same four of the top ten market services; Retail Trade, Post & Telecoms, Computing and Other Business Services. UK profit margins rose in only three of the top ten market services in 2001-2005; the same services as TWCR and Leeds CR except the Retail Trade.

⁶² Operating profits fell 4% in 2001-2003 (to £3,270m in 2003) [as output fell 5%] but recovered in 2003-2005, rising one-quarter (26%) [as output rose 21%]. The trajectory in TWCR followed the pattern set in the UK, where operating profits rose in 2001-2005, despite falling in 2003-2003.

⁶³ UK operating profits fell -2% in 2001-2003, but rose 13% in 2003-2005.

⁶⁴ 3pp before rounding of TWCR and Leeds CR growth rates.

⁶⁵ Unlike TWCR, operating profits in Leeds CR rose in both 2001-2003 (+5%) and 2003-2005 (+17%) although growth in the earlier period was the slower of the two.

Box 5.1: Paradox of Land Transport’s Low Margins, despite including subsidies

Profit margins in 2005 were lowest in Land Transport in both TWCR (31%) and Leeds CR (25%). Perhaps, importantly, Gross Value Added is measured *before subsidies are removed*, which are large in this market service. Paradoxically, this method tends to boost GVA and thus margins.

Low margins might also reflect downward pressure on road haulage and possibly on bus and taxi operators.

Box 5.2 Profit Margins and Competitiveness in Services

TWCR’s four *most competitive market services*, defined by profit margins (relative to the UK) are:

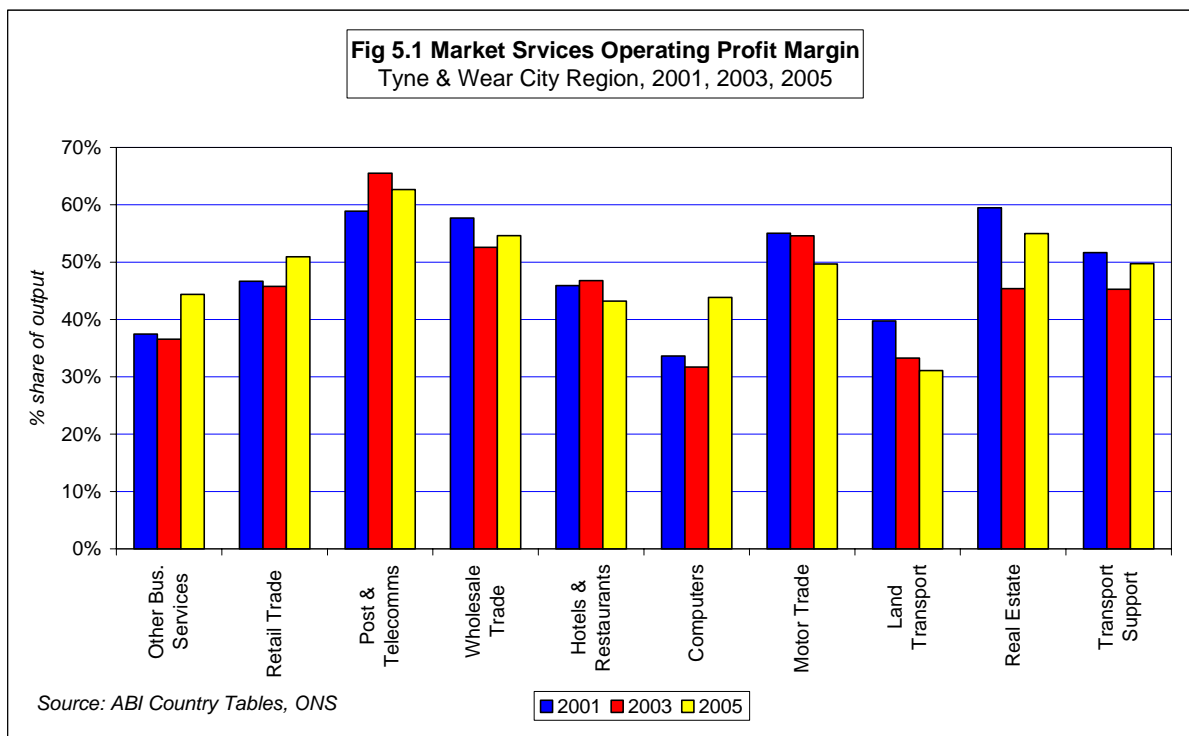
- Post & Telecoms
- Wholesale
- Retail
- Hotels & Restaurants

These are TWCR’s five *largest* market services (all except Other Business Services). Transport Support also had margins higher than the UK.

In Tyne & Wear (Box 11.1) the most competitive services can be identified using OLQ [which brings in OBS] and productivity too. Some association with establishment size (relative to UK) is also useful (in section on Competitiveness).

This process of identification is, however, much less clear than in Manufacturing.

The fastest margins rise in TWCR was in Computing, where profit margins rose 10pp from 34% in 2001 to 44% in 2005 (Fig 5.1). Profit margins growth was also strong in OBS, rising 7pp from 37% in 2001 to 44% in 2005. The rises in the two remaining industries were more modest in Retail and Post & Telecoms (both 4pp).

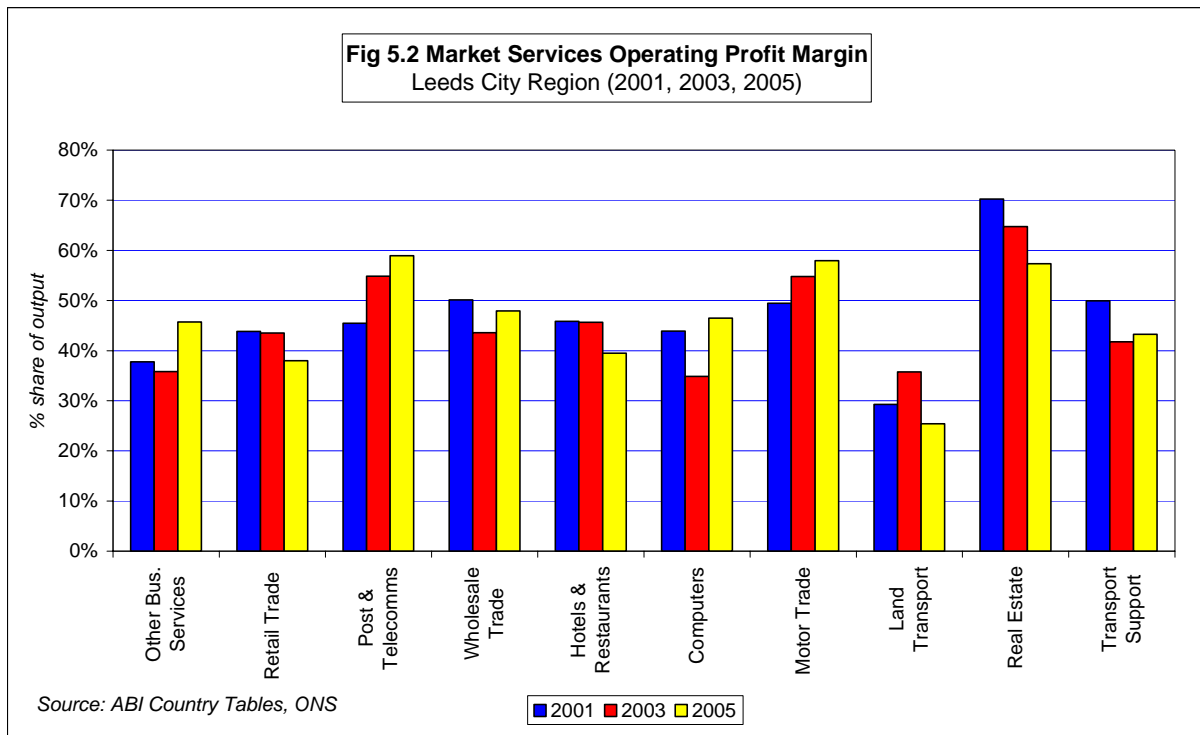


The sharpest *fall* in margins was in Land Transport, where profit margins fell 9pp from 40% in 2001 to 31%⁶⁶ [perhaps reflecting lower subsidies to bus, Metro and rail operators]. Profit margins fell 5pp

⁶⁶ It is odd that Land Transport margins fell by nearly a quarter whilst its output grew faster than Leeds CR and the UK, and productivity was above the UK.

in Motor Trade from 55% in 2001 to 50% in 2005. The decline in the remaining four industries (Real Estate, Wholesale Trade, Hotels & Restaurants and Transport Support) was more modest at less than 5pp.

Profit margins growth was more favourable than Leeds CR (Fig 5.2) in five top ten services; Retail, Computing, Real Estate, Hotels & Restaurants and Transport Support.



- Growth in Retail was 10pp faster in TWCR than Leeds CR, where profit margins fell -6pp.
- Profit margins in Computing rose in both TWCR and Leeds CR, but the growth was 8pp faster in TWCR (+ 10pp) than Leeds CR (+ 3pp).

Profit margins *fell* in both CRs in 2001-2005 in Real Estate, Hotels & Restaurants and Transport Support, but the decline was slower in TWCR than Leeds CR in all three services.

The change in profit margins was *less favourable* in TWCR than Leeds CR in the remaining five top ten services; Motor Trade, Post & Telecoms, Land Transport, Other Business Services and Wholesale Trade. In the Motor Trade profit margins fell 5pp in TWCR but rose 9pp in Leeds CR.

Growth in profit margins was more favourable in TWCR than the UK in only three services.

- Other Business Services margins rose in both TWCR (up 7pp) and the UK (up 2pp), but growth was 5pp faster in TWCR.
- Retail margins rose 4pp in TWCR, 7pp faster than the UK (down 3pp in 2001-2005).
- Computing margins rose in both TWCR and the UK, but growth was 2pp faster in TWCR.

The changes in profit margins in the remaining seven services were less favourable in TWCR than the UK. In six of these services (Land Transport, Wholesale Trade, Transport Support, Motor Trade, Real Estate and Hotels & Restaurants) profit margins declined in both TWCR and the UK, but the fall was faster in TWCR. Profit margins in the remaining service, Post & Telecoms, rose in both TWCR (+ 4pp) and the UK (+ 7pp) but growth was 3pp slower in TWCR.

6. MARKET SERVICES INVESTMENT

Investment figures give a strong indication of the direction in which the Market Services sector is developing. It is both a physical and psychological sign of where growth is to be expected (by management). In practice, investment tends to follow previous profitability –as the major source of investment capital is retained profit.

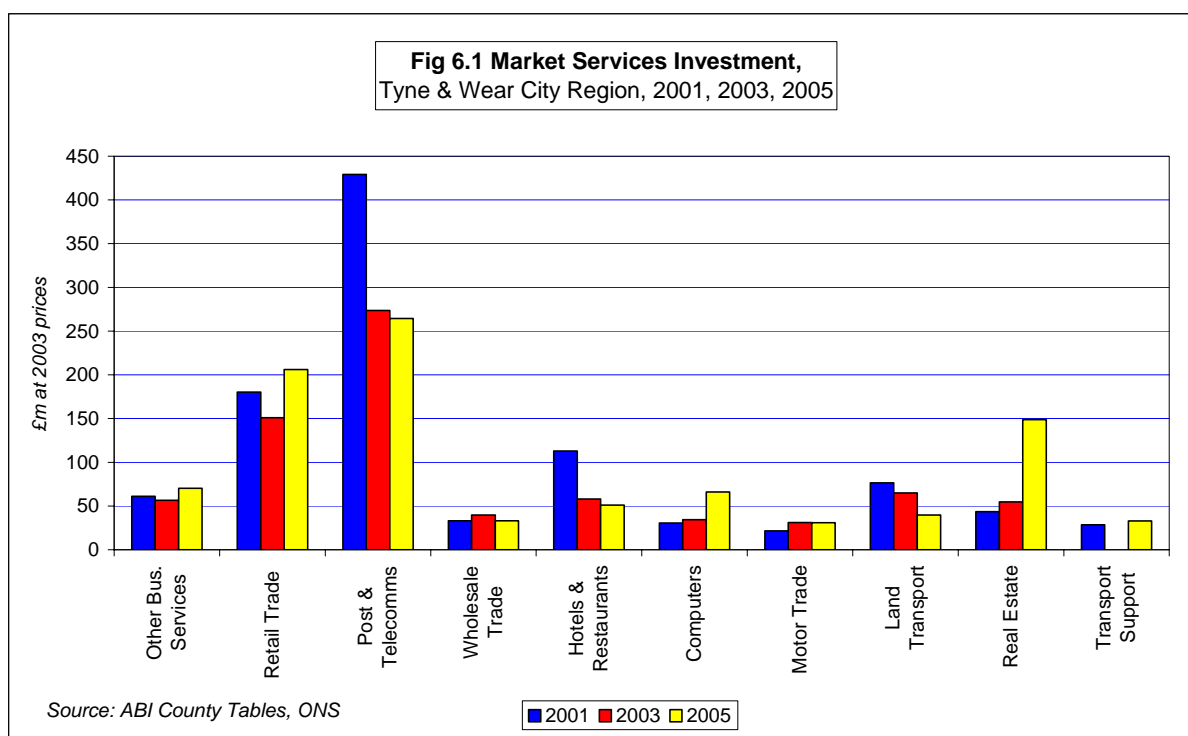
The **definition** of investment is wide. In the ABI, investment is referred to as ‘net capital expenditure’ which includes expenditure on plant & machinery and on buildings and vehicles. It is ‘net’ of the disposal of these assets, but no reduction is made for depreciation [This is more like ‘Gross Investment’ in the economic sense –Ed].

Cautions:

- a) From ONS; The regional capital expenditure figures do not meet the ONS quality standards and, consequently, do not have National Statistics status.
- b) From TWRI; It can be dangerous to try and draw conclusions from investment data and patterns. Single years do not give a firm basis and sampling from the ABI can distort investment figures.

The investment figures within this section are included in order to give a *broad indication only* of trends within TWCR and its comparators. Figures for TW and RoCR have been omitted as data is particularly volatile at this level. Additional information may be found in Appendix 6.1.

In 2005, net investment by Market Services in Tyne & Wear City Region (TWCR) was relatively high compared to Leeds CR. Net investment in TWCR was £1,026m in 2005, 2% of UK net investment (£45,860m) and equal to 68% of net investment in Leeds City Region (Leeds CR) (£1,512m) (current prices).



* Data for Net Investment in Transport Support was suppressed in 2003

In 2001-2005, net investment fell -14% in TWCR and the UK but only -1% in Leeds CR. Net investment in TWCR fell -14% from £1,141m in 2001 to £979m in 2005 (in 2003 prices). This

matched the decline in the UK (down 14% from £51,145m in 2001 to £43,760m in 2005). In Leeds CR net investment, by contrast held up well; falling less than 1% (from £1,462m in 2001 to £1,448m in 2005).

Despite falling overall, net investment in TWCR *rose* in seven (i.e. most) top ten market services in 2001-2005, including some very fast increases in Real Estate, Computing and Motor Trade.

- Net investment in Real Estate rose by a massive 242% (from £44m in 2001 to £149m in 2005)
- Net investment rose 116% in Computing (from £31m to £66m)
- Net investment in Motor Trade rose 44% (from £22m to £31m)

Box 6.1 Investment Patterns and Competitive Services in TWCR

The biggest net investments shown in Fig. 6.1 suggest that TWCR's most likely growth services are:

Post & Telecoms
Retail
Real Estate
Computing
OBS

It is striking how low OBS is in this list (it was also 5th in Leeds CR, but 4th in the UK). The rise of Real Estate is also remarkable. Perhaps this is a geographical 'spread effect' which reached TWCR by 2005.

Net investment in TWCR *fell* in the remaining three top ten market services in 2001-2005, but the falls in all three were dramatic.

- Net investment in Hotels & Restaurants fell by more than half (-55%) from £113m in 2001 to £51m in 2005
- Land Transport fell -48% from £76m to £40m [possibly due to the completion of the £100m extension to Sunderland of the Tyne & Wear Metro, which opened in 2002]
- Post & Telecoms fell -38%, over -£160m, from £429m to £265m⁶⁷.

In 2005, net investment in TWCR was *highest* in Post & Telecoms (£265m) [despite falling nearly 40% or -£164m in 2001-2005]. Net investment was also high in Retail (£206m). Net investment in the top ten market services was lowest in the Motor Trade (£31m). [Further details in Appendix 6.1].

Net investment *per employee* in TWCR was higher than both comparators in 2005 but its decline was also faster:

- Net investment per employee in TWCR was £3,656 in 2005 (current prices), still 6% higher than the UK (£3,455) and one-third more than Leeds CR (£2,752). [Further details in Appendix 6.2].
- Net investment per employee in TWCR fell 23% in 2001-2005 from £4,548 in 2001 to £3,488 in 2005 (in 2003 prices).

Net investment per employee fell 19% in the UK (from £4,065 in 2001 to £3,296 in 2005) and fell 9% in Leeds CR (from £2,878 in 2001 to £2,626 in 2005).

⁶⁷ This big cut in Telecoms investment can be seen as part of the reaction to the Telecoms investment boom of 1998-2001. This included, nationally, providers paying over £20bn [equivalent to over £400m just in TW] just for licences to provide third generation (3G) mobile services.

7. MARKET SERVICES ESTABLISHMENT SIZE

- TWCR market services establishments are *smaller* than the UK. The average establishment size in TWCR was 10 employees in 2005 and remained at this level throughout 2001-2005.
- Establishment size is bigger than in the UK in some of TWCR's competitive market services – especially in Post & Telecoms and in Computing.

In 2005 the average Market Services establishment in TWCR had 10 employees (Table 7.1). This was 1 employee greater than the average in Leeds CR (9) and less than one employee smaller than the UK average (11).

Table 7.1: Establishment Size* in Market Services in Tyne & Wear City Region, with Leeds City Region & UK comparison, 2005

SIC	Service	Tyne & Wear City Region	Leeds City Region	UK	TWCR/ UK	LCR/ UK
74	Other Business Services	10.6	8.4	8.6	1.2	1.0
52	Retail Trade	10.5	10.3	15.4	0.7	0.7
64	Post & Telecommunications	38.6	17.3	33.2	1.2	0.5
51	Wholesale Trade	9.0	9.9	11.0	0.8	0.9
55	Hotels & Restaurants	11.4	10.5	14.7	0.8	0.7
72	Computing	7.7	4.2	5.7	1.4	0.7
50	Motor Trade	7.6	7.1	8.8	0.9	0.8
60	Land Transport	11.8	9.7	12.5	0.9	0.8
70	Real Estate	5.4	4.4	5.0	1.1	0.9
63	Transport Support	15.8	26.4	24.5	0.6	1.1
	All Market Services	10.4	9.2	11.0	1.0	0.8

* = Employees per business

There was very little change in market services establishment size in TWCR or its comparators in 2001-2005. Overall the average establishment size in TWCR, Leeds CR and the UK remained at 10, 9 and 11 employees respectively.

The average market services establishment in TWCR is 13% larger than in Leeds CR. In 2005, eight of the top ten market services in TWCR had an average establishment size which was greater than the average for the service in Leeds CR. [Remarkably] The average establishment size in Post & Telecoms in TWCR (39) in 2005 was *more than double* that in Leeds CR (17) [see box 7.1, below]. Also, Computing's average establishment size in TWCR (8) was *almost double* that in Leeds CR (4). The average establishment size in OBS in TWCR (11) was one-quarter bigger than Leeds CR (8).

Box 7.1 Establishment Size in Post & Telecoms

Call centres should generally be coded under SIC 74 (Other Business Services). However, if an enterprise has its own call centres, it is likely that its employment and output (GVA) will be recorded under the SIC code for the dominant part of that enterprise. If an enterprise contracts-out work to carry out the call centre function, then its employment etc. would be recorded under OBS.

The large establishment size in Post & Telecoms in TWCR was initially thought to be due to call centres, but this does not appear to match the high productivity levels for the service. TWRI suspects that there may have been some classification problems with call centre activities between where activity should be coded, and where it has been placed.

Alternatively, high investment levels in cable television and telecoms may also explain why profit and output are so high in Post & Telecoms.

The average establishment size in TWCR was smaller than Leeds CR in the remaining two market services in 2005; Transport Support and Wholesale Trade. This was particularly evident in Transport Support, where the average in TWCR (16) was almost 11 employees less than Leeds CR (26) in 2005.

The average size in TWCR was larger than the corresponding *UK* average in four of the top ten market services.

- In Post & Telecoms (1.2 times the UK average) TWCR (39) was over 5 employees higher than the UK (33)⁶⁸ [This was the greatest numeric difference].
- There were also significant differences in Other Business Services (1.2) and Computers (1.4) where the average establishment size in TWCR (11 and 8 respectively) was two employees more than the UK (9 and 6).
- Average establishment size in Real Estate in TWCR (1.1) was just 0.4 more than the UK (5)

These four services in TWCR thus have potential economies of scale versus UK competitors. They also showed high net investment (in absolute amounts all four were in the top five; in previous section).

⁶⁸ *This was significantly less than the difference between TWCR and Leeds CR, where TWCR's average establishment size was more than double Leeds CR's [This may be due to higher numbers of call centres in TWCR].*

8. PURCHASING OF KEY SERVICES

This section covers purchases of ACT services, that is Advertising, Computing and Telecoms. In all cases, figures relate to purchases from external sources (i.e. outside the firm making the purchase).

- In 2005, TWCR Market Service firms reported purchasing Advertising, Computer and Telecoms (ACT) services to the value of £718m (equivalent to 8% of GVA). This is equal to 61% of the purchases in Leeds CR (£1,184m).
- Advertising was the largest purchase by TWCR, and all comparators (over 50% of ACT).
- OBS led the purchases of ACT services in Leeds CR, but was behind Telecoms in TWCR.

Purchasing of Road Transport services now excluded.

In the previous report (1998-2000), purchasing patterns by the main market services in TW were assembled from their expenditure on the four major services. These were Road Transport, plus Advertising, Computer-related services and Telecoms (ACT). Data was no longer available for purchases of Road Transport for 2001-2005, so it has not been possible to include it in this section.

8.1. PURCHASING OF KEY SERVICES

In 2005, the Market Services sector in TWCR purchased Advertising, Computer and Telecoms services valued at £718m⁶⁹ (Table 8.1). Purchases came particularly from the Wholesale Trade (£211m)⁷⁰, Post & Telecoms (£118m) and Other Business Services (£110m). Land Transport (£12m) spent the least on services.

Table 8.1: Purchasing of Key Services by Market Services in Tyne & Wear City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Service Purchases (£m)								
		Tyne & Wear City Region			Leeds City Region			UK		
		Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services
74	Other Business Services	48.0	36.5	25.9	69.5	65.1	73.1	2,662	2,234	1,896
52	Retail Trade	56.6	14.0	10.8	262.0	30.9	23.8	3,544	823	607
64	Post & Telecommunications	51.2	40.7	25.7 *	47.2	26.4	8.6	1,648	1,182	414
51	Wholesale Trade	186.5	10.4	14.2	112.3	34.4	39.5	4,131	785	935
55	Hotels & Restaurants	12.1	4.7	4.8	29.1	5.8	10.2	721	193	249
72	Computing	12.6	59.5	8.3	19.1	43.2	18.6	980	1,515	944
50	Motor Trade	20.7	5.3	5.0	61.9	13.1	13.7	2,413	350	302
60	Land Transport	3.7	3.3	4.0	6.9	6.2	9.5	203	227	242
70	Real Estate	9.8	6.3	4.5	27.3	13.8	11.2	771	391	328
63	Transport Support	14.7	5.6	5.5	34.4	21.8	18.6	868	436	342
	Total	415.7	186.3	108.7	669.6	260.7	227.0	17,941	8,136	6,259
	All Market Services	417.7	187.3	112.8	679.4	266.4	238.1	18,597	8,601	6,580

* This Figure has been estimated by TWRI
Totals may not sum due to rounding

Note: In TWRI's judgement, the figure for purchases of Advertising services by Wholesale Trade in TWCR (£186.5m) is far too high. A more reasonable estimate would be around £50m. Likewise, TWRI would suggest that the figure for purchases of Advertising services by Retail Trade in Leeds CR (£262m) may also be over-estimated.

TWCR's purchasing of services was high relative to Leeds CR, equivalent to 61% of the amount spent in Leeds CR (much higher than its 50% equivalent in output). In 2005, Leeds CR purchased the same

⁶⁹ This figure excludes purchasing made by Air Transport, for which purchasing data was suppressed for the majority of 2001-2005 in Tyne & Wear City Region and could not be reliably estimated.

⁷⁰ This figure may be too high. In TWRI's judgement a more reasonable estimate would be around £50m.

services valued at almost £1,184m, which predominantly came from Other Business Services (£203m), Wholesale Trade (£186m) and Retail (£317m) [Leeds CR Retail's Advertising spend is twice the UK average in relation to GVA (Table 8.5), but might well be due to HQs of major retailers ASDA and Morrison].

In the UK, as in Leeds CR, purchases came particularly from Other Business Services (£6,792m), Wholesale Trade (£5,851m) and Retail (£4,974m).

Expenditure on Advertising services was the largest item purchased by the top ten market services in TWCR, almost £416m [or about 55% of their total spend on services]. Wholesale Trade reportedly spent the most on Advertising services in 2005 (£187m), but TWRI believes a more credible estimate would be around £50m.

Expenditure on Telecoms services in TWCR was the smallest item purchased by the top ten market services in TW, less than £109m [or about 14% of the total spend on services].

TWCR followed the pattern in the UK, which spent the most on Advertising services (£18,597m) and the least on Telecoms (£3,580m).

Only three of the top ten market services in TWCR (Post & Telecoms, Wholesale Trade and Computing) had a higher proportion of total spent by Market Services than Leeds CR (Table 8.2).

Table 8.2: Spend on Key Services by Market Services in Tyne & Wear City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Service Purchases (£m)					
		(% of total spent on the three major industries attributed to each industry)					
		Tyne & Wear City Region	Leeds City Region	UK	TWCR-UK	LCR-UK	TWCR-LCR
74	Other Business Services	15.4%	17.5%	20.1%	-4.7	-2.6	-2.2
52	Retail Trade	11.3%	26.8%	14.7%	-3.4	12.0	-15.4
64	Post & Telecommunications	16.4% *	6.9%	9.6%	6.8	-2.7	9.4
51	Wholesale Trade	29.4%	15.7%	17.3%	12.1	-1.6	13.7
55	Hotels & Restaurants	3.0%	3.8%	3.4%	-0.4	0.4	-0.8
72	Computing	11.2%	6.8%	10.2%	1.0	-3.4	4.4
50	Motor Trade	4.3%	7.5%	9.1%	-4.8	-1.6	-3.2
60	Land Transport	1.5%	1.9%	2.0%	-0.5	-0.1	-0.4
70	Real Estate	2.9%	4.4%	4.4%	-1.5	0.0	-1.6
63	Transport Support	3.6%	6.3%	4.9%	-1.3	1.4	-2.7
	Total	99.0%	97.8%	95.7%	3.3	2.0	1.3
	All Market Services	100.0%	100.0%	100.0%			

* This Figure has been estimated by TWRI

Totals may not sum due to rounding

8.2. RATIO OF SPEND ON SERVICES TO OUTPUT (GVA)

In 2005, the Market Services sector in TWCR spent the equivalent of over 8% of output (GVA) on purchasing ACT services (Table 8.5). This was 1.5pp more than Leeds CR, which spent almost 7% of its market services output on purchasing services –mainly due to higher reported spends on Advertising.

Table 8.3: Market Services' Expenditure on Advertising, Computer and Telecoms Services as a Proportion of Output in Tyne & Wear City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Tyne & Wear City Region			Leeds City Region			UK		
		Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services
74	Other Business Services	2.1%	1.6%	1.1%	1.5%	1.4%	1.6%	2.2%	1.8%	1.6%
52	Retail Trade	3.7%	0.9%	0.7%	11.0%	1.3%	1.0%	5.9%	1.4%	1.0%
64	Post & Telecoms	4.7%	3.8%	2.4%	3.5%	2.0%	0.6%	4.9%	3.5%	1.2%
51	Wholesale Trade	20.5%	1.1%	1.6%	4.2%	1.3%	1.5%	6.9%	1.3%	1.6%
55	Hotels & Restaurants	1.9%	0.7%	0.8%	2.9%	0.6%	1.0%	2.5%	0.7%	0.9%
72	Computing	2.3%	11.0%	1.5%	2.2%	4.9%	2.1%	2.7%	4.2%	2.6%
50	Motor Trade	4.7%	1.2%	1.1%	5.2%	1.1%	1.2%	10.7%	1.6%	1.3%
60	Land Transport	1.0%	0.9%	1.0%	1.1%	0.9%	1.4%	1.1%	1.3%	1.4%
70	Real Estate	2.9%	1.9%	1.4%	3.1%	1.6%	1.3%	3.1%	1.6%	1.3%
63	Transport Support	4.8%	1.9%	1.8%	2.9%	1.8%	1.6%	4.0%	2.0%	1.6%
	Total	4.9%	2.2%	1.3%	4.0%	1.5%	1.3%	4.2%	1.9%	1.5%
	All Market Services	4.8%	2.2%	1.3%	4.0%	1.5%	1.4%	4.1%	1.9%	1.5%

Note: In TWRI's judgement, the figure for purchases of Advertising services by Wholesale Trade in TWCR is far too high. A more reasonable estimate would be around £50m. Likewise, TWRI would suggest that the figure for purchases of Advertising services by Retail Trade in Leeds CR may also be over-estimated.

The proportion of output spent on purchasing services in both CRs was higher than in the UK, which spent just over 6% of its market services output in 2005.

TWCR spent 0.8pp more than the UK on purchasing ACT services as a ratio to output, and was higher than the UK in seven of the top ten market services.

The spend on ACT by TWCR was 0.9pp above Leeds CR's ratio to output, and above Leeds CR in five of the top ten market services. This was greatest in Wholesale Trade, where the [dubious] ratio in TWCR was almost five times as high as in Leeds CR.

PURCHASES OF ADVERTISING

In 2005, all three areas (TWCR, Leeds CR and the UK) spent the largest amount on *Advertising* and the smallest on *Telecoms*⁷¹.

TWCR spent almost 5% of its market services output on Advertising services in 2005. The highest ratio was in Wholesale Trade, which spent a massive [and dubious] 21% of its output on Advertising services [or around 5%, if TWRI's estimate is correct]. This increased the TWCR average as all remaining top ten market services spent 5% of their output, or less, on purchasing Advertising services.

PURCHASES OF COMPUTER SERVICES

In 2005, TWCR Market Services spent 2.2% of its output on purchasing *Computer* services, nearly twice the spend on *Telecoms* but less than half that on *Advertising* services. The proportion of GVA spent by *Computing* (11%) was well above any other top ten services. This appears to be, in effect, out-sourcing by TWCR Computing firms - at over twice the levels in Leeds CR and UK (under 5%).

The higher spend on Computing was widespread. The ratio of TWCR market services spend on Computing to output was 1½ times as high as in Leeds CR, which spent 1.5% of its output on Computer services in 2005. TWCR spent a higher proportion than Leeds CR in seven of the top ten market services and matched the proportion spent in Leeds CR in one service.

⁷¹ Figures for Tyne & Wear City Region exclude Air Transport and Research & Development (as previously noted).

Similarly, compared to the UK, TWCR Market Services spent 0.3pp more on Computing services than the UK in 2005 (as a proportion of market services output). TWCR was higher than the UK in eight of the top ten Market Services.

PURCHASES OF TELECOMS SERVICES

There is no general evidence of higher spend on *Telecoms* in TWCR than in Leeds CR, despite the greater distance to most large UK markets. Indeed Telecoms spend is *below* the UK average (1.5% of GVA). TWCR spent 1.3% of its market services output on purchasing Telecoms services in 2005. Post & Telecoms spent the largest ratio to output, at more than 2%. The spend by Transport Support and Wholesale Trade (both just under 2% of output) were also relatively high. Retail (0.7%) spent the smallest proportion on Telecoms in TWCR in 2005.

Purchasing of Telecoms was much higher by UK Computer Services (2.6%) than by TWCR (1.5%), perhaps reflecting greater web usage.

The ratio of TWCR market services spend on Telecoms to output was very marginally (+ 0.1pp) higher than Leeds CR, which spent more than 1% of its total Market Services output on Telecoms in 2005. This was predominantly due to Post & Telecoms, where TWCR (2.4% of GVA) spent four times the proportion in Leeds CR (0.6% of GVA). [This might be due to some call centres].

The proportion of output spent on Telecoms was also higher in TWCR than Leeds CR in Transport Support (+0.2pp), Wholesale Trade (+0.1pp) and Real Estate (+0.1pp) [perhaps reflecting greater distances to markets]. It was lower than Leeds CR in all six remaining top ten market services.

PART B: MARKET SERVICES IN TYNE & WEAR AND THE REST OF THE CITY REGION

COMPETITIVENESS IN TYNE & WEAR

'Competitive Services' Identified

TWRI has attempted to identify important patterns in Tyne & Wear's (TW) market services sector by identifying associations between key indicators. To highlight those services which display competitive advantage relative to the UK, TWRI has particularly used two indicators; 'output location quotients' (OLQ) and 'profit margins above UK'⁷². Some association with large establishment size has also been found. It is hoped that this will provide a broad picture of TW's strengths in market services, and some insight into drivers of competitiveness.

Selected on the above basis of OLQ and 'profit margins above UK', three services in TW emerged as competitive in 2005;

Post & Telecoms,

Retail Trade

and Other Business Services (OBS).

Post & Telecoms and Retail emerge as particularly competitive, as their *productivity* is also high relative to the UK (Table, below). In comparison, OBS is 'only just' competitive, with a share of output just 2% higher than in the UK and a profit margin just 3% above the UK.

**Top Ten Market Services in Tyne & Wear, 2005:
Key Indicators of Competitiveness**

	Output Location Quotient	Profit Margin relative to the UK	Productivity relative to the UK
Post & Telecoms	1.79	1.22	1.15
Retail Trade	1.33	1.23	1.10
Other Business Services	1.02	1.03	0.91
Land Transport	0.99	0.85	1.01
Hotels & Restaurants	0.96	1.09	0.94
Motor Trade	0.95	0.97	1.01
Wholesale Trade	0.81	1.11	1.03
Transport Support	0.75	1.03	0.79
Computing	0.74	0.97	0.79
Real Estate	0.65	0.77	0.64

Data ranked according to Output Location Quotient
Source: ABI County Tables, ONS

For Retail it is, however, hard to argue as a *policy-relevant* competitive service, because it is so obviously a dependent service – serving local demand.

Overall in TW, there appears to be positive association between larger presence (OLQ above 1) and higher service margins (relative to the UK) (Table, above). This suggests a degree of local specialisation associated with higher profitability.

⁷² These two indicators have also been used in the companion report on Manufacturing, from which a clearer picture of competitive industries emerged.

Competitiveness Possibly driven by Establishment Size

TW's competitive services, therefore, effectively appear to be in Post & Telecoms and in Other Business Services – and both are associated with larger establishment size than in the UK (Table, below). This identifies a possible *driver* of their competitiveness; larger establishment sizes – and thus 'economies of scale'.

Top Ten Market Services in Tyne & Wear, 2001-2005

	Establishment Size relative to the UK (2005)	Establishment Size Growth (numerical)	Employment Growth (%)	Employment Growth (numerical)	Employment Growth relative to the UK (pp)	Productivity Growth	Productivity Growth relative to the UK (pp)
Computing	1.55	0.49	12%	900	11	3%	-16
Other Business Services	1.47	0.28	24%	10,900	11	-3%	-7
Post & Telecomms	1.43	2.87	0%	0	7	12%	-5
Very Large Establishments	1.48	1.21	12%	11800	10	4%	-9
(exc. Telecomms)	1.51	0.38	18%	11800	11	0%	-11
Land Transport	1.28	3.03	20%	1,400	19	2%	4
Real Estate	1.20	-1.01	11%	800	-20	-16%	-2
Large Establishments	1.24	1.01	15%	2200	0	-7%	1
Motor Trade	0.97	0.83	8%	700	6	5%	10
Wholesale Trade	0.92	-1.11	-7%	-1,100	-6	12%	11
Hotels & Restaurants	0.80	0.52	10%	2,700	3	-4%	-6
Retail Trade	0.75	1.59	11%	5,600	9	9%	5
Transport Support	0.71	3.37	22%	1,000	10	17%	6
Small Establishments	0.83	1.04	9%	8900	5	8%	5

Data ranked according to Establishment size relative to the UK

Source: ABI County Tables, ONS

Indeed, the ranking of the ten major services in TW by establishment size, relative to the UK (above), is separated into three groups; Of the three services with largest establishments (relative to the UK), two are also 'competitive' services;

Computing,

Other Business Services

and Post & Telecoms.

Box C1: Post & Telecoms Competitiveness in TW – an Oddity which can be excluded

Post & Telecoms, unlike Computing and OBS, had high absolute growth in establishment size and a low rate of employment growth. This suggests a process of consolidation. It might also be due to a mix of services moving in different directions.

Post & Telecoms had the largest *growth* in establishment size (extra persons per establishment) of the three services, many times that of Computing and OBS. However, employment in Post & Telecoms was flat over 2001-2005, whereas it grew rapidly in Computing (12%) and very rapidly in OBS (24%). Owing to the above odd features, TWRI has judged it appropriate, for the purposes of identifying trends within TW, to exclude Post & Telecoms from the first group of services (in the Table, above).

Large Establishment Size (relative to UK) might lead, via competitiveness, to Employment Growth

Large establishment size is associated with employment growth⁷³. In Computing and OBS [which have the biggest establishment relative to the UK] employment rose (up 18%) at *double* the average rate in services with small (below the UK) establishment sizes (up 9%) (Table, above).

Larger establishment size (relative to the UK) also appears to have some association with significantly faster employment growth *relative to the UK*⁷⁴. The services with the largest establishments had the fastest growth relative to the UK, an average of 10pp faster in TW than the UK.

'Revealed Competitiveness'

An alternative approach is to identify services which have achieved employment growth, and infer from this that they thereby display (or 'reveal') some competitiveness in TW. Services thereby revealed as competitive in TW are Transport Support and Land Transport.

On this basis, Transport Support has shown very strong employment growth (up 22%, gaining 1,000 jobs) apparently in new travel agency call centres (and the fastest output growth, 43%, see §9.2 for more details). Moreover this was accompanied with fast productivity growth (up 17%). Although profit margins were slightly higher than in the UK (1.03), the output location quotient –despite the rapid growth - was still only 0.75 in 2005. Its productivity remains well below the UK (0.79).

Land Transport also achieved strong employment growth (up 20%, gaining 1,400) and strong output growth (up 22%). This might be associated with the GNER call centre and perhaps some expansion by transport operators (bus, metro, hauliers and taxis). Here there was, however, a trivial gain in productivity (up only 2%). In Land Transport, the OLQ and productivity are practically on the UK averages (0.99 and 1.01).

Both Transport Support and Land Transport are, presumably, very dependent on local demand. There are, nevertheless, opportunities for growth through serving wider demand –partly through call centres.

Computing might be expected to be a competitive service in TW (given the high-profile growth of Sage and TSG). The data from ABI, however, are not so strong. TW's recorded output growth is 15%, and 12% for employment. Productivity growth was very weak at just 3%. Profit margins are close to the UK (0.97), and no more, despite large establishment size relative to the UK (1.55). Productivity in Computing is low relative to the UK (0.79) suggesting the activity recorded is relatively low-value added.

Other Patterns

There is no clear pattern between establishment size and *productivity growth* in TW; rates of growth fluctuate widely both between and within categories.

However, there does appear to be a strong (negative) association between establishment size and productivity growth *relative to the UK*. Productivity in the services with the largest establishments in TW *fell* relative to the UK [presumably as they took on low-value activities]. In contrast, productivity in all but one of the services with smaller establishments in TW rose relative to their performance in the UK.

⁷³ This size/growth analysis suggests that there is a negative association between establishment size in 2005 and growth in establishment size in 2001-2005. The services with the largest establishments in TW (Computing and OBS) experienced much smaller increases in establishment size: the average absolute growth in the size in services with 'small establishments' was more than double that in 'very large establishments'.

⁷⁴ This association remains irrespective of whether Post & Telecommunications is included in the analysis.

9. MARKET SERVICES OUTPUT

- TW created 78% (£6,735m) of TWCR's output. RoCR adds 29% (£1,937m) to the value of TW output.
- Other Business Services and Retail are the two largest market services in both TW and RoCR, but share of output in TW is stronger than RoCR in Post & Telecoms and Wholesale Trade, while Hotels & Restaurants output is much stronger in RoCR.
- The market service sector is more diverse in RoCR than TW: half the top ten market services were over-represented in RoCR relative to the UK, two more than in TW.
- Output growth was about 1½ times as fast in RoCR (22%) as in TW (14%).

9.1. STRUCTURE OF OUTPUT

The top ten market services by output accounted for 97% of the total market services output in both regions. This analysis focuses on these top services.

The top ten market services in Tyne & Wear (TW) and the Rest of the City Region (RoCR) differed only in order.

TYNE & WEAR

In 2005, the output of the market services sector in Tyne & Wear (TW) was £6,735m, 78% of Tyne & Wear City Region's (TWCR) total market services output (£8,672m) (current prices) (Table 9.1). TW thus produced just 1.5% of the UK market services output (£452bn)

Table 9.1: Output (GVA) of Top Ten Market Services in Tyne & Wear and the Rest of the City Region, with UK comparison, 2005

SIC	2001 Rank	Service	Output (Gross Value Added)					
			Tyne & Wear		Rest of the City Region		UK	
			(£m)	% of total output	(£m)	% of total output	(£m)	% of total output
74	1	Other Business Services	1,838	27.3%	423	21.8%	121,690	26.8%
52	2	Retail Trade	1,198	17.8%	321	16.6%	60,507	13.3%
64	4	Post & Telecommunications	899	13.3%	182	9.4%	33,742	7.4%
51	3	Wholesale Trade	721	10.7%	189	9.8%	59,588	13.1%
55	5	Hotels & Restaurants	406	6.0%	227	11.7%	28,511	6.3%
72	7	Computing	395	5.9%	146	7.5%	36,004	7.9%
50	6	Motor Trade	316	4.7%	122	6.3%	22,463	5.0%
60	10	Land Transport	261	3.9%	124	6.4%	17,820	3.9%
70	8	Real Estate	242	3.6%	93	4.8%	25,055 *	5.5%
63	9	Transport Support	239	3.6%	64	3.3%	21,554	4.8%
		Total	6,516	96.7%	1,891	97.7%	426,934	94.2%
		All Market Services	6,735	100.0%	1,936	100.0%	453,330	100.0%

Totals may not sum due to rounding

* The figure for UK Real Estate comes from a different ABI dataset

The shares of output held by each service in TW were broadly similar to those observed in TWCR, but differed from the UK. The output of the top four market services is more concentrated in TW than

RoCR. Output from OBS, Retail, Post & Telecoms and Wholesale Trade accounted for 69% of market services output in TW in 2005, compared to less than 58% in RoCR (see following section).

TW is most dependent on OBS output, more so than the UK. OBS produced over 27% (£1,838m) of market services output in TWCR in 2005, marginally higher than the share of output in TWCR (26%) and the UK (27%). Other Business Service growth in TW was, however, slower than its comparators, suggesting that the higher dependency on output observed above may not continue. This might well be due to TW's relatively low proportion of OBS employment being in professional services (22%) compared to the UK (29%) and Leeds CR (27%) (see Table in §2.1 for industrial structure within OBS). Share of market services output in TW rose [just] 1pp in 2001-2005, less than both TWCR and the UK (2pp)⁷⁵.

As observed in TWCR, TW is markedly more dependent on Retailing than the UK. Retail output in TW was 18% (£1,198m) of total market services output, almost 5pp higher than the UK share (13%). This strongly suggests a large net inflow of Retail spending into TW. This partly reflects the position of TW as the location of the majority of large Retail Centres within TWCR⁷⁶.

Post & Telecoms is now TW's third largest market service by output, having over-taken Wholesale. The industry's share of output in TW was 13% in 2005, a very large 6pp higher than the UK. The higher dependency on Post & Telecoms output in TW seems set to continue, as share of output fell just -0.2pp in TW and -0.1pp in the UK in 2001-2005.

TW is markedly less dependent on output from Wholesale Trade than the UK, reflecting the service's position as third largest service by output in the UK, above Post & Telecoms. Wholesale contributed 11% (£721m) to TW market services output, 2pp less than its contribution in the UK (13%)⁷⁷. This 11% share of output matched the share in 2001 and 2003, and was 2pp lower than the UK in 2005 (13%), which fell 1pp in 2001-2005.

The output of each market service in an area can be compared to the corresponding service in the UK by using the 'output location quotient' (Table 9.2). This divides the local share of market services output by the corresponding service's share of UK market services output to give a measure of local concentration.

Table 9.2: Output Location Quotient of Top Ten Manufacturing Industries in Tyne & Wear and the Rest of the City Region, 2005

SIC	Service	Output Location Quotient	
		Tyne & Wear	Rest of the City Region
74	Other Business Services	1.02	0.81
52	Retail Trade	1.33	1.24
64	Post & Telecommunications	1.79	1.26
51	Wholesale Trade	0.81	0.74
55	Hotels & Restaurants	0.96	1.87
72	Computing	0.74	0.95
50	Motor Trade	0.95	1.28
60	Land Transport	0.99	1.62
70	Real Estate	0.65	0.87
63	Transport Support	0.75	0.69

⁷⁵ The difference in growth in Other Business Services' share of output was less pronounced than these rounded numbers: TW rose 1.5pp, compared to 1.6pp in TWCR and 1.7pp in the UK.

⁷⁶ Retail's share of market services output in TW rose [slightly, 1pp] in 2001-2005, in sharp contrast to the UK where output fell marginally [less than 1pp]. Both areas followed similar trajectories, with share of output rising in 2001-2003 (TW 1pp, UK less than 1pp) and falling in 2003-2005 (TW less than -1pp, UK 1pp).

⁷⁷ Share of output in TW fell [marginally, 0.2pp] slower in TW (-1pp) than the UK (-1pp).

In TW in 2005, only three of the top ten market services were over-represented (the top three services by output);

- Post & Telecoms (1.79)
- Retail (1.33)
- Other Business Services (1.02).

This shows markedly *more specialisation* within TW, as it is down from five in 2000;

- Retail (1.34)
- Wholesale (1.32)
- Real Estate (1.16)
- Hotels & Restaurants (1.05)
- Motor Trade (1.04)

All seven remaining market services in 2005 were under-represented when compared to the UK share of output. This was greatest in Real Estate (0.65), whose share output was less than two-thirds of the UK proportion. Transport Support (0.75) was also significantly under-represented in TW, at three-quarters of its share in the UK.

REST OF THE CITY REGION

In 2005, the output of the market services sector in the Rest of the City Region (RoCR) was £1,936m, 0.4% of the UK (£453bn) and 22% of total market services output in TWCR (meaning RoCR adds 29% to the value of TW output).

RoCR is most dependent on output from Other Business Services, but to a lesser extent than its comparators. OBS held the largest share of output in RoCR at 22% (£423m), but this was 4pp less than the TWCR average (26%) and 5pp less than the UK (27%). However, RoCR's dependency on OBS is increasing faster than all comparators, up 2pp in 2001-2005.

RoCR is more dependent on Retail output than the UK, but less so than TW. Retail's share of output was 17% (£320m) in RoCR in 2005, more than 3pp larger than the UK (13%) but 1pp less than TW. Retail's share of output *fell* in both RoCR and the UK in 2001-2005⁷⁸, but the decline in RoCR (-0.1pp) was marginally slower than the UK (-0.6pp).

RoCR is *less dependent* on output from the top four TWCR market services than both TW and the UK. Other Business Services, Retail, Post & Telecoms and Wholesale Trade contributed 58% to total market services output in RoCR, less than their 67% contribution in TW and 61% in the UK.

The lower dependency within RoCR can largely be attributed to Hotels & Restaurants' share of output, which is much larger than all comparators. Hotels & Restaurants is RoCR's third largest service by output, in sharp contrast to all other areas where the position is held by Post & Telecoms (TWCR and TW) or Wholesale (UK). Hotels & Restaurants' share of output was 12% (£227m) in 2005, *double* its share of output in both the UK and TW (6%). In 2001-2005, the service's share of output rose more than 3pp, faster than both TW and the UK, where share of output *fell* in the same period (TW -0.5pp, UK -0.1pp). Above-average growth of employment and GVA in TW since 2001 could be driving up demand for Hotels & Restaurants in RoCR. The share of market services output being twice that of the UK and TW, appears to reveal a preference for eating and drinking *outside* TW.

⁷⁸ In contrast to TW, where its share of output grew.

The market services sector is more diverse compared to TW: half of the top ten market services were over-represented in RoCR relative to the UK in 2005, two more than in TW.

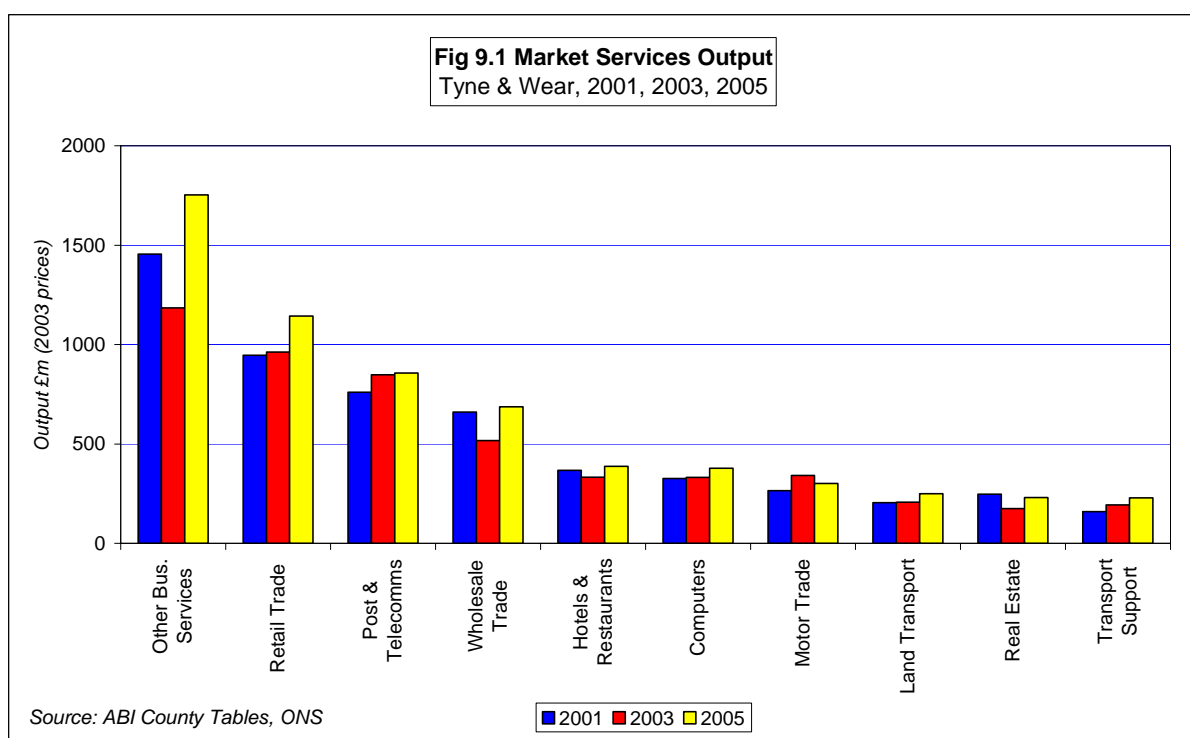
In contrast, RoCR's representation is stronger than TW in the next (smaller) top five industries by output (Hotels & Restaurants, Computing, Motor Trade, Land Transport and Real Estate). In particular, Hotels & Restaurants (1.87), Land Transport (1.62) and Motor Trade (1.28) are over-represented in RoCR [Hotels & Restaurants and Land Transport dramatically so] but under-represented in TW.

9.2. CHANGE IN OUTPUT

TYNE & WEAR

In Tyne & Wear (TW) in 2001-2005, market services output grew 14% (£794m) from £5,633m in 2001, to £6,427m in 2005 (2003 prices). This was 4pp faster than the UK but 2pp slower than Tyne & Wear City Region (TWCR) owing to fast growth in the Rest of the City Region (RoCR)⁷⁹. Thus, as an annual average, TW's market services grew at around 3½% p.a.⁸⁰.

Market services output growth was very widely based, growing in nine of the top ten TW market services in 2001-2005 (Fig 9.1), one more than the UK. The only fall in output in TW was in Real Estate (-7%). UK market services output fell in Motor Trade (-3%) and Land Transport (-1pp).



The *fastest* growth in TW was in Transport Support, where output rose 43% (£68m) in 2001-2005, almost *double* the rise in the UK (24%). TWRI's Job Change data suggest that Transport Support

⁷⁹ Output growth in TW took place in 2003-2005, rising 22% (£1,155m) after it fell -6% (-£361m) in 2001-2003. This very broadly followed the growth trajectory in the UK, where output rose almost 10% in 2003-2005, having stagnated in 2001-2003.

⁸⁰ This is a very healthy growth rate.

employment growth was in travel agencies' call centres – and this could account for output growth. Output growth in TW was evenly spread, rising 21% in 2001-2003 and a further 18% in 2003-2005⁸¹.

Output in TW also *grew rapidly (over 20%)* in Land Transport (22%, £45m), Retail (21%, £198m) and Other Business Services (21%, £298m) and growth in all three services was stronger than the UK.

Growth in Land Transport output in 2001-2005 was 23pp stronger in TW than the UK [perhaps largely due to the GNER call centre], where output fell -1%. Stronger growth in TW can largely be attributed to 2003-2005, when output rose 21% after rising by a marginal 0.9% in 2001-2003⁸².

Retail's output growth in TW (21%) was almost four times as fast as growth in the UK (6%)⁸³ [The actual real growth of retailing, in both areas, will have been faster because prices in shops have been slower than GVA inflation –Ed].

The growth in OBS output was also in 2003-2005, when output rose by a massive 48% after it had fallen -19% in 2001-2003. Overall OBS growth in TW was almost one-quarter faster than the UK (17%). The trajectories of growth in both areas had similarities, as the vast majority of the UK growth was also in 2003-2005 (17%) after output rose very marginally (less than 1%) in 2001-2003.

There was also strong growth in output (more than 10%) in Computing (15%) [or possibly over 40%, if ONS mis-coded]⁸⁴, Motor Trade (14%) and Post & Telecoms (13%).

Motor Trade output in TW performed significantly better than in the UK, where output fell -3%. Output fell in 2003-2005 in both TW (-12%) and the UK (-11%) but the earlier rise was much greater in TW (29%) than its comparator (UK 9%).

The performance of Real Estate output in TW in 2001-2005 (-7%) was 19pp weaker than the UK, where output *rose* 13%. In the UK, Real Estate output fell in 2001-2003 (-7%)⁸⁵, but then grew strongly in 2003-2005, when output rose 21%. TW's Real Estate output rose even faster in 2003-2005 (up 32%), but it failed to recover fully from a previous -30% fall in 2001-2003⁸⁶.

REST OF THE CITY REGION

In 2001-2005, market services output in RoCR grew 22%, *faster than all comparators*. Overall growth in RoCR was almost 8pp faster than TW (14%)(contributing to faster overall growth in TWCR) and more than 11pp faster than the UK (10%).

RoCR's growth was faster and more stable than in both TW and the UK⁸⁷. Output in RoCR rose 3% in 2001-2003 from £1,516m to £1,558m and rose by a further 19% in 2003-2005.

Output in RoCR grew in seven of the top ten market services in 2001-2005, two fewer than TW (Fig. 9.2). This means growth in some of the services in RoCR was *much faster than in TW*.

⁸¹ In contrast, output in the UK rose just 2% in 2001-2003 and 21% in 2003-2005.

⁸² In contrast, UK service output failed to successfully recover from a -5% fall in 2001-2003, rising by a relatively small 4% in 2003-2005.

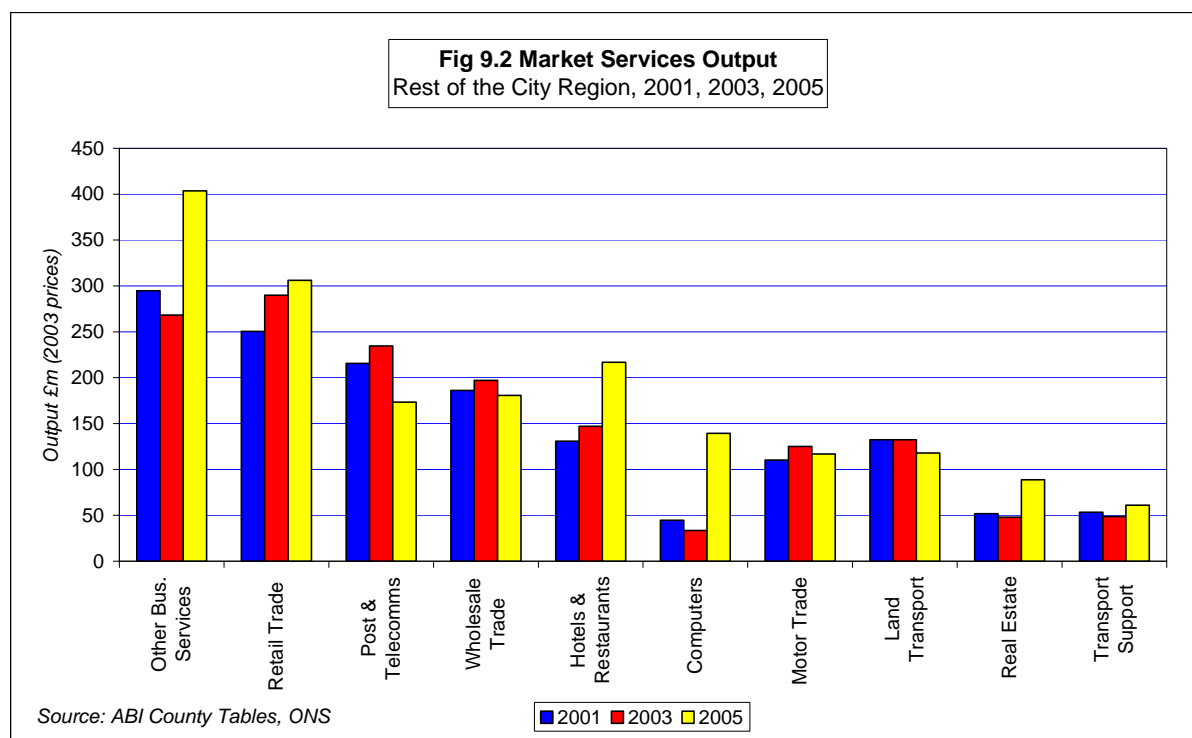
⁸³ The stronger growth in TW again primarily took place in 2003-2005 (19%) rather than 2001-2003 (2%), while growth in output in the UK grew 3% in both 2001-2003 and 2003-2005.

⁸⁴ Oddly ONS data shows a massive £95m rise in RoCR Computing: This appears to be an error in the geo-referencing by ONS in the judgement of TWRI. If £90m of the report growth was actually in TW, TW's Computing output would have risen 43%.

⁸⁵ This dip in 2003 may well be partly due to uncertainty associated with the Iraq war in early 2003.

⁸⁶ This big TW fall in Real Estate from 2001-03 might be due to TW's down turn in 2001 being milder than in the UK.

⁸⁷ Growth in RoCR in 2003-2005 was slower than TW (22%), but output in the latter had fallen in 2001-2003 (-6%). In contrast, growth in RoCR in 2003-2005 was almost double growth in the UK (10pp) and much faster than growth in 2001-2005, where output in the UK remained the same.



Output growth in RoCR was particularly fast in Other Business Services (OBS) (up 37%), in Hotels & Restaurants (up 66%) and in Retailing (up 21%). Real Estate grew remarkably rapidly (up 72%), in contrast to its slight fall in TW.

The largest *numeric* growth in RoCR was in Other Business Services (OBS), up £109m (up a rapid 37%) from £295m in 2001 to £404m in 2005. This was over 1.75 times as fast as growth in TW (21%) and was more than twice as fast as the UK (17%)⁸⁸. There may have been some movement of OBS activity into the RoCR from TW, or faster growth of higher productivity activities. In RoCR, OBS productivity shot up by over a quarter (§11.2, Fig 11.2), although from a modest level around £25,000 rising to around £32,000.

Output growth in RoCR in Hotels & Restaurants was also much faster than TW and the UK. In 2001-2005, output in RoCR rose more than twelve times faster than TW (5%) and more than seven times faster than the UK (9%) [This suggests that a) new hotels⁸⁹ in RoCR since 2001 and growth of 'gastro-pubs' has greatly exceeded the decline of clubs, b) See also note on p.13 that TW's employment and income growth may also be driving this growth in RoCR and c) The 2001 base might have been depressed by Food & Mouth Disease –Ed].

RoCR's growth in Retail output was similar to that in TW (21%), both of which were much faster than growth in the UK, demonstrating the continuing strength of the service in both areas of TWCR. Interestingly, Retail growth in RoCR largely took place in 2001-2003 (16%) (TW just 2%) while growth in TW took place in 2003-2005 (19%) (RoCR 6%). The early Retail growth in RoCR would have included Dalton Park (near Seaham). The later Retail growth in TW will have included the major extension of the MetroCentre (including the new Debenhams store).

Fast growth in RoCR's consumer services, Hotels & Restaurants (66%) and Retail (22%), will have been partly driven by faster population growth than in TW. Real incomes in RoCR may also have risen more quickly than amongst TW residents.

⁸⁸ Output in OBS fell in both TW and RoCR in 2001-2003, but the fall in RoCR (- 9%) was less than half the rate in TW (- 19%). Similarly, output rose in both TW and RoCR in 2003-2005, but the rise was faster in RoCR (51%) than TW (48%).

⁸⁹ New hotels in RoCR since 2001 include Seaham Hall Hotel and Matfen Hall Hotel.

Output in Real Estate appears to be partly relocating from TW to RoCR as output rose massively in RoCR in 2001-2005, but fell in TW (-7%). Growth in RoCR was also much faster than the UK (13%) [perhaps reflecting the explosion of house prices from 2002, raising Estate Agent's revenues more quickly in RoCR than in TW].

The *fastest* reported rise in RoCR market services output was in Computing, rising by a massive 212% (£95m)⁹⁰, dramatically faster than growth in TW (15%) [despite the growth of Sage and establishment of TSG –Ed] or the UK (20%).

Output in RoCR fell in three services; Post & Telecoms (- 20%), Land Transport (- 11%) and Wholesale Trade (- 3%). This was in sharp contrast to TW, where output rose in all three services, suggesting that some of the losses in RoCR may have been due to the relocation of operations to TW.

⁹⁰ *Growth in RoCR should be viewed with caution owing to the relatively small size of the figures involved. This near £100m growth looks like a data error (see footnote on previous page).*

10. MARKET SERVICES EMPLOYMENT

- Three-quarters of market services employment was located in TW (212,000). Employment in RoCR (67,000) was just one-third of TW.
- Market services employment was highest in TW in Retail and Other Business Services. In RoCR, it was highest in Retail and Hotels & Restaurants.
- Employment growth in TW & RoCR was at very similar rates, 12% (23,000) and 11% (6,800) respectively. This suggests inter-action between service firms in the two areas (Box 10.1).

10.1. EMPLOYMENT LEVELS

TYNE & WEAR

In 2005, market services employment in Tyne & Wear (TW) was 212,100 (Table 10.1). This was 76% of total market services employment in Tyne & Wear City Region (TWCR).

Table 10.1: Employment in Top Ten Market Services in Tyne & Wear and the Rest of the City Region, with Leeds City Region and UK comparison, 2005

SIC	Service	Tyne & Wear		Rest of the City Region		UK	
		Number	% of total	Number	% of total	Number (th)	% of total
74	Other Business Services	56,600	26.7%	12,500	18.2%	3,416	25.7%
52	Retail Trade	56,200	26.5%	18,100	26.4%	3,109	23.4%
64	Post & Telecommunications	12,300	5.8%	2,700	3.9%	529	4.0%
51	Wholesale Trade	14,200	6.7%	4,900	7.1%	1,212	9.1%
55	Hotels & Restaurants	29,200	13.7%	15,900	23.2%	1,916	14.4%
72	Computing	8,100	3.8%	2,100	3.1%	585	4.4%
50	Motor Trade	8,700	4.1%	3,900	5.6%	628	4.7%
60	Land Transport	8,400	4.0%	3,900	5.7%	581	4.4%
70	Real Estate	7,500	3.5%	2,200	3.2%	498	3.8%
63	Transport Support	5,800	2.7%	1,300	2.0%	416	3.1%
	Top Ten Services	207,100	97.6%	67,500	98.4%	12,890	97.1%
	All Market Services	212,100		68,600		13,275	

Totals may not sum due to rounding

In 2005, employment in TW was over 10,000 in five of the top ten services and over 25,000 in three of these services; Other Business Services (56,600), Retail (56,200) and Hotels & Restaurants (29,200). The majority of market services employment in TW is in OBS and Retail, which contribute 53% of total market services employment (8pp more than in RoCR, see section below).

In 2005, shares of market services employment held by the top ten market services in TW and the UK were broadly similar (difference of less than 1pp) with the exception of Retail, Post & Telecoms and Wholesale Trade;

- Retail's share of TW market services employment (27%) is 3pp higher than the UK (23%).
- Post & Telecoms' share of employment is 2pp higher in TW (6%) than the UK (4pp).
- Wholesale Trade's share of employment is more than 2pp lower in TW (7%) than the UK (9%).

REST OF THE CITY REGION

In 2005, market services employment in the Rest of the City Region (RoCR) was 68,600. Market services employment in Tyne & Wear City Region (TWCR) is based much more strongly in Tyne & Wear (TW) than RoCR, where market services employment was just 24% of the TWCR total.

Overall, market services employment in RoCR is greater (and growth is stronger) in consumer services than business services. In 2005, employment in RoCR was highest in Retail (18,100), Hotels & Restaurants (15,900) and Other Business Services (12,500).

The shares of employment held by the top ten market services in RoCR differed significantly to those in TW and the UK;

- Hotels & Restaurants' share of employment in RoCR (23%) is much higher (by 9pp) than both the UK and TW (both 14%). More than one-third (35%) of TWCR employment in the service is based in RoCR, much more than its overall contribution of 24% to market services employment [Caution: A large proportion of this contribution may be due to part-time working].
- Retail's share of MS employment in RoCR (26%) is larger than the UK (23%).
- Conversely, employment in Other Business Services is much smaller (-9pp) in RoCR (18%) than in the UK (26%) (in sharp contrast to TW, where share of employment is 27%).

10.2. EMPLOYMENT GROWTH

Box 10.1 Market Services Employment in the Tyne & Wear and Rest of City Region

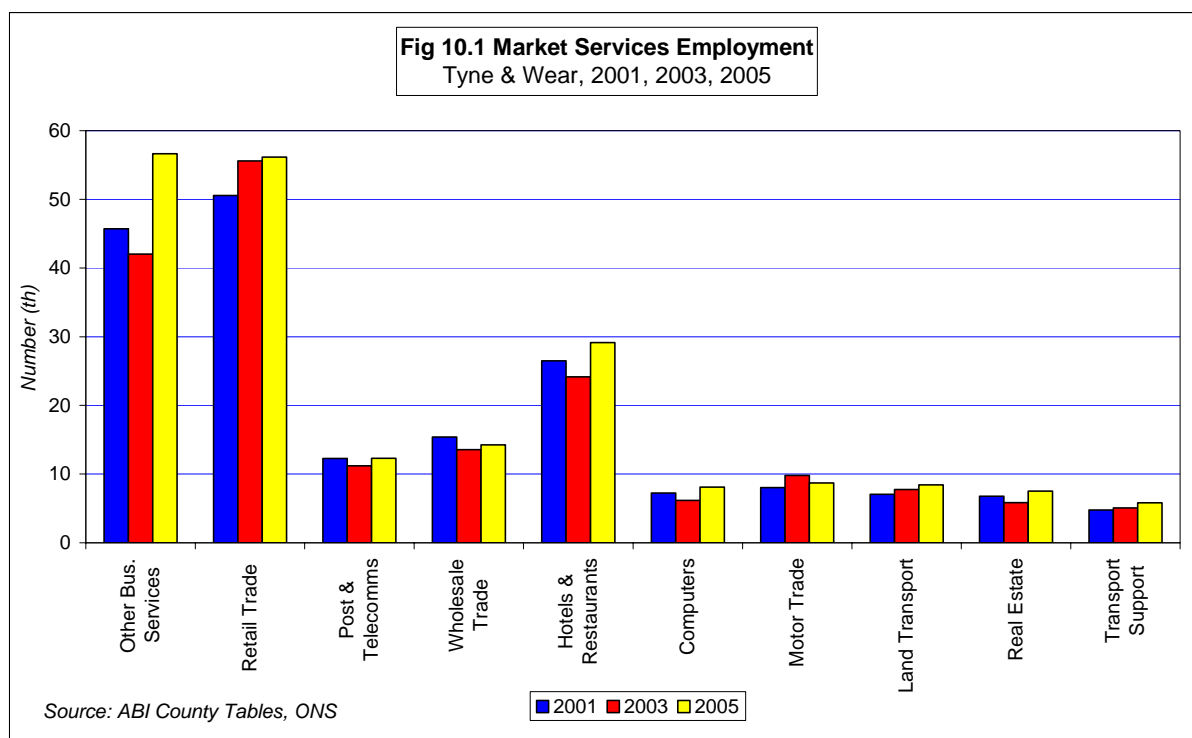
The much greater similarity in performance (than in manufacturing) in market services employment growth suggests there is greater inter-action between TW (up 12%) and RoCR (up 11%) in market services. TWRI suggests this is mainly because service firms, very much more than manufacturing firms, serve over-lapping customer bases.

TYNE & WEAR

In 2001-2005, market services employment in TW rose 12% (up 23,000)⁹¹. Employment growth in TW was twice as fast as in the UK (6%), which significantly contributed to overall faster growth in TWCR (12%) relative to the UK⁹².

⁹¹ Employment in TW fell -3% (-5,000) in 2001-2003 (continuing the decline in employment experienced in 1998-2000, -14%) but recovered strongly in 2003-2005, rising 15% (28,000).

⁹² Growth in TW fluctuated more than the UK, where employment rose 1% in 2001-2003 and a further 4% in 2003-2005.



Between 2001 and 2005, employment rose in nine of the top ten market services in TW. As observed in TWCR, the largest absolute gain was in OBS, where employment grew 24% (10,900). Other significant gains were largely in consumer services:

Retail (up 11%, 5,600),

Hotels & Restaurants (up 10%, 2,700),

Land Transport (20%, 1,400)

and Transport Support (22%, 1,000) [Employment in Transport Support had *fallen* 27% (- 1,800) in 1998-2000].

The only decline in TW employment in 2001-2005 was in Wholesale Trade, which fell 7% (- 1,100) to 14,200 in 2005. Employment in the Wholesale Trade had [oddly] risen 32% (4,100) in 1998-2000, but this was thought to be due to previous under-recording.

The growth in market services employment in TW was faster than the UK in eight of the top ten market services. Growth in Land Transport in 2001-2005 was 19pp faster in TW (20%) [with gains at travel agents' call centres]⁹³ than the UK (1%). Growth in employment was also significantly faster in TW than the UK in;

Other Business Services (11pp faster),

Computing (11pp),

Transport Support (10pp)

and Retail (9pp).

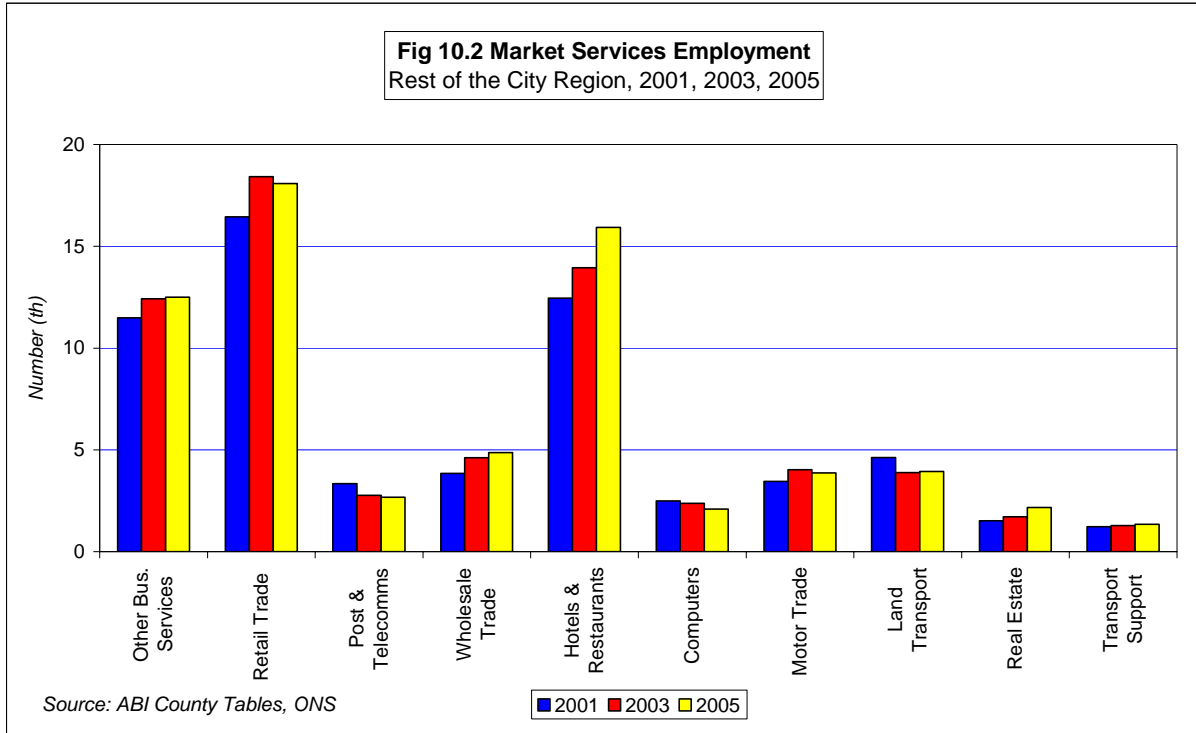
Growth in employment in Real Estate, however, was 20pp slower in TW (11%) than the UK (31%) in 2001-2005. Employment in Wholesale Trade fell in both TW and the UK, but the decline was 6pp faster in TW (- 7%).

⁹³ Source: TWRI Job Change Database (from the press).

REST OF THE CITY REGION

In 2001-2005, market services employment in RoCR grew 11% (up 6,800), slightly slower (-1pp) than TW (12%) but still almost twice as fast as in the UK (6%).

Employment growth in RoCR largely took place earlier, in 2001-2003 (up 10%, 6,000), in contrast to TW where employment fell. Similarly, employment in RoCR rose by a marginal 1% (900) in 2003-2005, when employment growth in TW was greatest.



Between 2001 and 2005, employment grew in seven of the top ten services in RoCR, two fewer than in TW. The largest numerical gain was in Hotels & Restaurants, where employment grew by a very rapid 28% (3,500). [This might well be partly the upside of recovery from the effects of Foot & Mouth Disease in 2001]. There was also significant growth (at least 1,000) in Retail (10%, 1,600), Wholesale Trade (27%, 1,000) and Other Business Services (9%, 1,000).

Employment in RoCR fell in the remaining three top ten services in 2001-2005: Post & Telecoms (-20%, -700), Computing (-16%, -400) and Land Transport (-15%, -700). Employment rose in all three of these industries in TW, suggesting that *some* of the employment growth in TW could be due to the relocation of jobs from RoCR (although this could also be due to inconsistencies in the geographical allocation of data, or may simply be a coincidence).

The overall growth in market service employment in RoCR was faster than the UK in six of the top ten industries, two less than in TW. The performance of the remaining four top ten industries (OBS, Post & Telecoms, Computing and Transport Support) was less favourable in RoCR than the UK. Growth in all four of these mainly business services, was faster than the UK in TW, suggesting employment growth in RoCR is weaker in business services than TW.

11. MARKET SERVICES PRODUCTIVITY

- Productivity in TW (£31,800) [7% below the UK] was much higher than RoCR (£28,200) [17% below the UK].
- Productivity growth, however, was five times as fast in RoCR (10%) as in TW (2%). Thus TW has been holding back TWCR's market services productivity growth⁹⁴.

TWRI believes TW's Other Business Services expansion in low-productivity activities has been a material factor holding back TW market services sector's productivity growth.

11.1 PRODUCTIVITY LEVELS

Productivity: Definition, Rounding and the Effect of Part-Time Employees

a) Productivity levels are a measure of efficiency in the use of labour and provide a guide towards future output and employee performance. Productivity is defined as 'Gross Value Added per Employee' in this report.

b) Productivity figures have been rounded to the nearest £100 in the text, but the un-rounded figures are retained in table 11.1 to allow readers to perform their own calculations or analyses if they wish.

Caution: Productivity is calculated simply per employee (as employees are the variable in ABI/2). There is substantial *part-time* employment within market services, which depresses the average relative to manufacturing.

A more sophisticated analysis of productivity per full-time employee (fte) could follow, subject to the quality of the full-time/part-time split.

TYNE & WEAR

In 2005, market services productivity in Tyne & Wear (TW) (£31,800) was 7% less (-£2,400) than the UK (£34,100) (Table 11.1), well above the Rest of the City Region (RoCR), which was around 17% below UK levels (meaning TW raises overall productivity in TWCR).

Table 11.1: Productivity Levels in Top Ten Market Services in Tyne & Wear and the Rest of the City Region, with UK Comparison, 2005 (current prices)

SIC	Service	Tyne & Wear £	TW as Index of UK (UK=100)	Rest of the City Region £	RoCR as Index of UK (UK=100)	UK £
74	Other Business Services	32,444	0.91	33,833	0.95	35,624
52	Retail Trade	21,342	1.10	17,747	0.91	19,462
64	Post & Telecommunications	73,118	1.15	67,888	1.06	63,784
51	Wholesale Trade	50,605	1.03	38,894	0.79	49,165
55	Hotels & Restaurants	13,931	0.94	14,265	0.96	14,880
72	Computing	48,757	0.79	69,650	1.13	61,545
50	Motor Trade	36,294	1.01	31,650	0.88	35,769
60	Land Transport	31,033	1.01	31,395	1.02	30,671
70	Real Estate	32,245	0.64	42,704	0.85	50,311 *
63	Transport Support	41,166	0.79	47,404	0.91	51,813
	All Market Services	31,750	0.93	28,240	0.83	34,149

Totals may not sum due to rounding

*The figure for UK Real Estate comes from a different ABI dataset

⁹⁴ Caution: this may reflect higher growth of part-time working in TW than in RoCR.

Although overall, market services productivity in TW was lower than the UK, the productivity of five of the top ten market services was *higher in TW* than the UK:

Post & Telecoms	(1.15), [not due to call centres, which have low productivity]
Retail	(1.10), [perhaps a feature of big urban areas]
Wholesale Trade	(1.03),
Motor Trade	(1.01)
and Land Transport	(1.01).

Productivity was lower in TW than the UK in the five remaining major services. This was most dramatic in Real Estate (0.64), where productivity in TW (£32,200) was less than two-thirds productivity in the UK (£50,300). Competitive services show some weak association with productivity being above the UK (Box 11.1).

Box 11.1 Productivity and Competitive Services in Tyne & Wear

	Output Location Quotient	Productivity relative to the UK	Profit Margins relative to the UK	Productivity Growth	Output Growth (%)	Profit Margin Growth (pp)
Post & Telecoms	1.79	1.15	1.22	12%	13%	6
Retail Trade	1.33	1.10	1.23	9%	21%	7
Other Business Services	1.02	0.91	1.03	-3%	20%	8
Land Transport	0.99	1.01	0.85	2%	22%	-8
Hotels & Restaurants	0.96	0.94	1.09	-4%	5%	-3
Motor Trade	0.95	1.01	0.97	5%	14%	-3

REST OF THE CITY REGION

In 2005, market services productivity in the Rest of the City Region (RoCR) (£28,200) was a substantial 17% (£5,900) less than in the UK (£34,100) (Table 11.1).

Productivity in RoCR was above the UK in just three business services; Computing (1.13)⁹⁵, Post & Telecoms (1.06) and Land Transport (1.02). (There seems no link from productivity to competitiveness in RoCR; Box 11.2). (TW's productivity in Post & Telecoms and Land Transport were also above the UK, but reported productivity in Computing was lower).

⁹⁵ Computing productivity estimates are of potentially dubious quality, since the ONS appears to have added substantial Computing output to RoCR which TWRI believes more credibly belongs in TW.

Box 11.2 Productivity and Competitive Services in the Rest of the City Region

	Output Location Quotient	Productivity relative to the UK	Profit Margins relative to the UK	Productivity Growth	Output Growth (%)	Profit Margin Growth (pp)
Hotels & Restaurants	1.87	0.96	0.89	30%	66%	1
Land Transport	1.62	1.02	1.13	4%	-11%	-8
Motor Trade	1.28	0.88	0.88	-6%	6%	-12
Post & Telecoms	1.26	1.06	1.25	0%	-20%	-4
Retail Trade	1.24	0.91	1.06	11%	22%	-5
Computing	0.95	1.13	1.04	272%	212%	*

The market service sector is much less productive in RoCR than both TW and the UK. Productivity in seven of the top ten services was lower in RoCR than the UK, two more services than TW.

Productivity in RoCR was highest in business services; Post & Telecoms (£67,900), Computing (£69,650), Transport Support (£47,400) and Wholesale Trade (£38,900). Productivity in RoCR was lowest in Hotels & Restaurants (£14,300 with many part-timers, although this was higher than in TW).

11.2 PRODUCTIVITY GROWTH

TYNE & WEAR

In 2001-2005, market services productivity in Tyne & Wear (TW) grew just 2% (£500), from £29,700 in 2001 to £30,300 in 2005 (2003 prices). Productivity growth therefore averaged just 0.5% per annum, half that in the UK (1% pa)⁹⁶. [This is likely to cause real earnings growth to be very weak in TW⁹⁷.] Productivity growth was also half the rate in TWCR, owing to fast growth in the Rest of the City Region (RoCR).

Productivity in TW rose in seven of the top ten market services in 2001-2005. The fastest productivity growth was in Transport Support, which rose 17% (£5,700) from £33,600 in 2001 to £39,300 in 2005. This productivity growth was faster than in either TWCR (14%) or the UK (11%) [Presumably due to a change in mix; this was apparently due to a growth of call centres by travel agencies⁹⁸].

Productivity growth was also healthy (more than 10%) in Post & Telecoms (12%, £7,700) and Wholesale Trade (12%, £5,300). Productivity growth in the other four top ten services with productivity growth (Retail, Motor Trade, Computing⁹⁹ and Land Transport) was less than 10%.

The slowest productivity growth was in Land Transport (only 2%), for which a variety of reasons are possible;

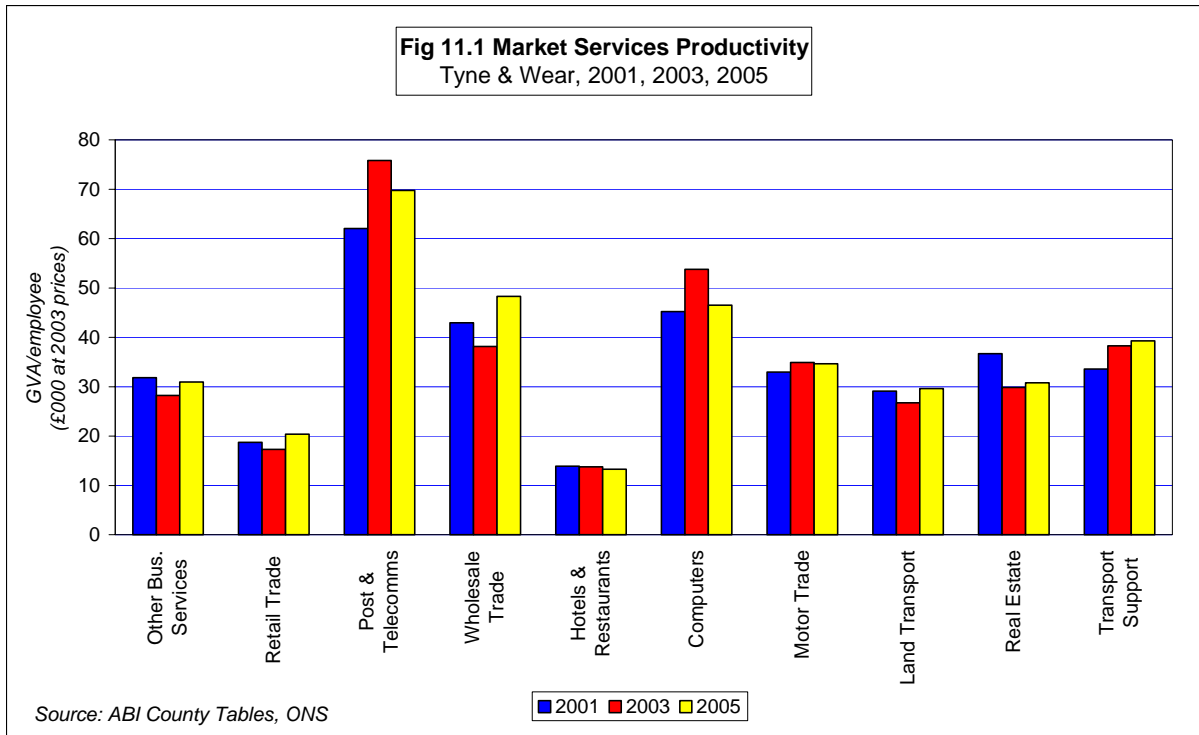
- Reduced subsidy (included in GVA and productivity),
- Expansion of low-productivity and/or part-time working (e.g. at rail call centres, taxis etc.)

⁹⁶ TW followed the UK growth trajectory (where productivity fell in 2001-2003 but improved in 2003-2005) but growth was much slower in TW. Productivity in TW fell 4% (- £1,200) in 2001-2003 but rose 6% (£1,700) in 2003-2005. Productivity in TW fluctuated more than in the UK, where productivity fell -1% in 2001-2003 and rose 5% in 2003-2005.

⁹⁷ For which there is evidence in 2006 and 2007, from ASHE (ONS' Annual Survey of Hours and Earnings).

⁹⁸ TWRI Job Change Database.

⁹⁹ Caution: As before, the TW Computing output growth (15%) is thought by TWRI to be a material under-estimate. The TW Computing productivity growth may well thus also be materially under-estimated.



Productivity in TW *fell* in the remaining three top ten market services: Real Estate (-16%), Hotels & Restaurants (-4%) and –disturbingly –in Other Business Services (-3%). [If productivity in TW’s OBS had risen by 20%+ as in Leeds CR and RoCR, overall MS productivity would have been raised by about 5pp, instead of being depressed by nearly 1pp.]

While overall, in market services productivity growth in TW in 2001-2005 was 2pp slower than the UK, productivity growth in five of the top ten services was *faster* in TW (Wholesale Trade, Motor Trade, Transport Support, Retail and Land Transport).

The productivity growth in the remaining five services was slower than productivity in the UK. This was most evident in Computing, where productivity growth in TW (3%, £1,300) was 15pp slower than the UK (19%). This was a marked contrast from TWCR, where Computing productivity growth was 14pp *faster than* the UK [This is an additional reason for doubting the TW Computing output growth was only 15%. TWRI suspects it may have been more like 43% -Ed].

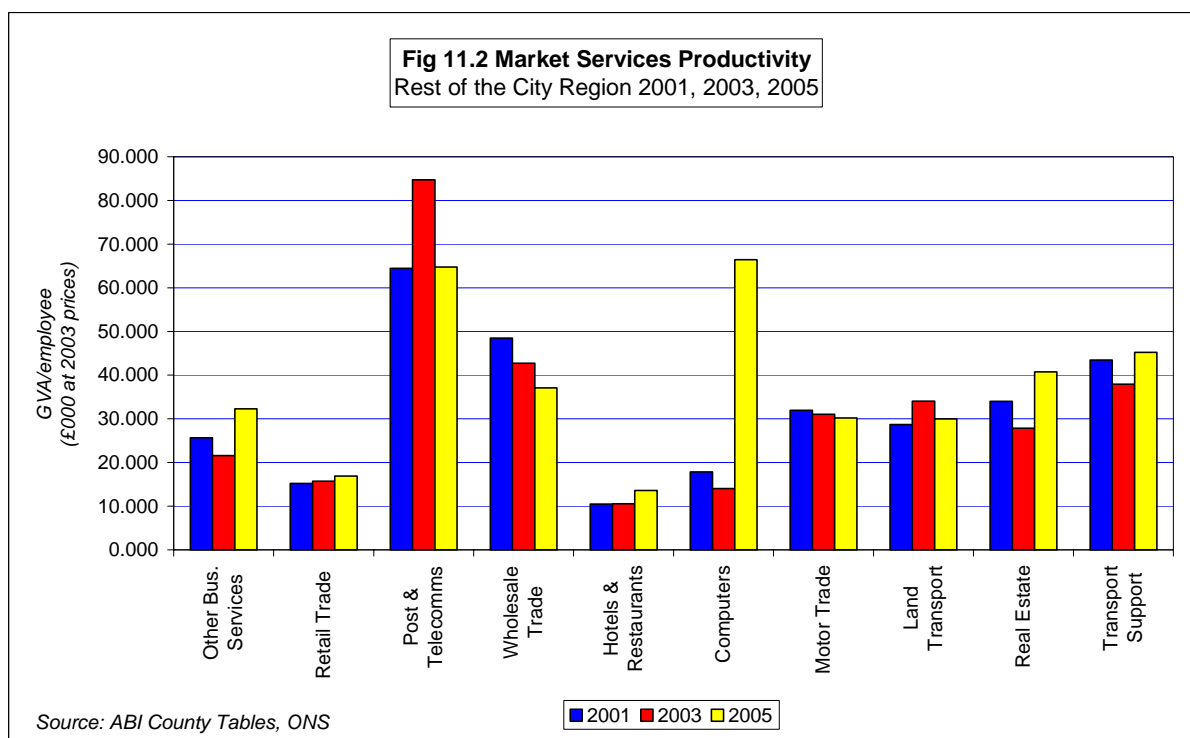
REST OF THE CITY REGION

In 2001-2005, market services productivity in the Rest of the City Region (RoCR) grew 10%, from £24,600 in 2001 to £26,950 in 2005 (2003 prices). Growth averaged over 2% per annum. Surprisingly, growth in RoCR was therefore about five times as fast as in TW, and more than twice as fast as in the UK¹⁰⁰.

RoCR productivity growth followed the general trajectory of observed in TW and the UK, but the decline in RoCR in 2001-2003 (-6%) was sharper than in its comparators, and growth in 2003-2005 was much more rapid (17%)¹⁰¹.

¹⁰⁰ Note: Even if about £100m of Computing output was wrongly recorded to RoCR instead of to TW, this would still only have reduced RoCR market services productivity growth to around 5% (and boost TW market services productivity growth to over 3%). Both hypothetical revisions assume no alteration to the employment data.

¹⁰¹ Possibly due to the smaller sample size in RoCR leading to more volatility in the estimates.



Productivity in RoCR rose in eight of the top ten market services in 2001-2005¹⁰². Growth was strong in both the business services and consumer services;

Productivity in RoCR rose strongly in;

Hotels & Restaurants (30%, £3,100) [helped by the huge 66% rise in output],

Other Business Services (26%, £6,600),

and Real Estate (20%, £6,700).

Growth in Retail in 2001-2005 was also relatively healthy at 11% (£1,700).

Productivity in Hotels & Restaurants, Other Business Services and Real Estate *fell* in TW in the same period.

Productivity in RoCR *fell* in the remaining two top ten market services in 2001-2005. Productivity in the Wholesale Trade, where productivity rose strongly in TW, fell - 23% (- £11,350) in RoCR. Motor Trade productivity fell - 6% (£1,800) in RoCR in 2001-2005, but rose in TW in the same period. [This is a hint that establishments in TW achieved greater competitive advantage over ones in RoCR in this period. This might be due to greater economies of scale.]

¹⁰² The fastest [reported] growth was in Computing, where [reported] productivity grew by a massive 272% (£48,580) from a tiny [and implausible] £16,740 in 2001 to a substantial £69,650 in 2005¹⁰². The dramatic increase in productivity can partly be attributed to a 212% increase in output in 2001-2005, which was accompanied by a -16% fall in employment. Reported productivity growth in RoCR was much faster than TW, where productivity in Computing grew just 3% in 2001-2005.

12. MARKET SERVICES OPERATING PROFIT

In this section, operating profits are considered in terms of both levels and, in particular, margins. In a healthy economy, in the long-run, profit levels will grow as output grows. However, profits tend to be sharply cyclical –falling and rising in particular years within the business cycle.

Important: Changes in profits are given in real terms (2003 prices).

- TW contributed 79% (£3,409m) of TWCR’s operating profits. Operating profits in RoCR add 26% (£902m) to TW [rather less than their 29% addition to output].
- Operating profits rose [a real] 20% in TW and 21% in RoCR.
- The higher profit margins in TWCR relative to its comparators were entirely due to margins in TW (51%), rather than RoCR (47%). Profit margin growth in TWCR was also attributable to TW (up 3pp) as profit margins *fell* in RoCR (- 0.4pp) in 2001-2005.

The meaning of operating profit:

One measure of profitability is operating profitability: the reward to capital from value added. An indication of operating profits can be obtained from the ABI data. Since, in principle, value-added is split between labour and capital, and rewards to labour are known, the rewards to capital can be calculated. ABI produce ‘Total Employment Costs’ data and so operating profits can be calculated directly by subtracting the ‘Total Employment Costs’ from the ‘Gross Value Added’.

Operating profit provides a good guide to financial health. It is not affected by differences in capital structure of a company (debt, equity [or share] capital). It is a wider concept than pre-tax profit. To obtain pre-tax profit, interest payments and depreciation would have to be subtracted.

12.1. OPERATING PROFIT LEVELS

Table 12.1: Market Services Operating Profit in Tyne & Wear and the Rest of the City Region with UK comparison, 2005

SIC	Service	Tyne & Wear £m	Rest of the City Region £m	UK £m
74	Other Business Services	845	159	54,533
52	Retail Trade	629	144	25,786
64	Post & Telecommunications	561	116	17,207
51	Wholesale Trade	396	102	29,488
55	Hotels & Restaurants	188	86	12,097
72	Computing	170	67	15,909
50	Motor Trade	162	56	11,789
60	Land Transport	73	46	5,907
70	Real Estate	122	62	16,496
63	Transport Support	118	33	10,266
	Total	3,263	872	199,478
	All Market Services	3,409	902	214,035

Totals may not sum due to rounding

TYNE & WEAR

In 2005, market services operating profits in TW were £3,409m, less than 2% of total operating profits in the UK (current prices) (Table 12.1). TW contributed 79% of TWCR's operating profits.

[Real] Operating profits in TW rose 20% in 2001-2005, from £2,704m in 2001 to £3,253m in 2005 (2003 prices)¹⁰³. Overall profits growth in TW was almost twice as fast as in the UK (10%) in 2001-2005. [This is one of the benefits of the faster output growth in TW than in the UK.]

REST OF THE CITY REGION

In 2005, market service operating profits in the Rest of the City Region (RoCR) were £902m, 0.4% of total operating profits in the UK (current prices). RoCR contributed 21% of TWCR operating profits.

Operating profits in RoCR rose 21% in 2001-2005, from £712m in 2001 to £860m in 2005 (2003 prices)¹⁰⁴. Profits growth in RoCR was just over twice as fast as in the UK (10%) in 2001-2005.

12.2. OPERATING PROFIT MARGINS

Table 12.2: Market Services Operating Profit Margins in Tyne & Wear and the Rest of the City Region with UK comparison, 2005

SIC	Service	Tyne & Wear	Rest of the City Region	UK
74	Other Business Services	46%	38%	45%
52	Retail Trade	53%	45%	43%
64	Post & Telecommunications	62%	64%	51%
51	Wholesale Trade	55%	54%	49%
55	Hotels & Restaurants	46%	38%	42%
72	Computing	43%	46%	44%
50	Motor Trade	51%	46%	52%
60	Land Transport	28%	37%	33%
70	Real Estate	50%	67%	66%
63	Transport Support	49%	52%	48%
	Total	50%	46%	47%
	All Market Services	51%	46%	47%

Totals may not sum due to rounding

TYNE & WEAR

In 2005, profit margins in Tyne & Wear (TW) were 51%, 3pp above the UK (47%) and slightly (0.9pp) above TWCR (50%) [meaning TW increased the TWCR average] (Table 12.2).

Profit margins in the top ten market services in TW were highest in Post & Telecoms (62%), Wholesale Trade (55%), Retail (53%), Motor Trade (51%) and Real Estate (50%). Profit margins were lowest in Land Transport (28%).

¹⁰³ As observed in TWCR, operating profits fell in 2001-2003 (-7%) but rose again in 2003-2005 (29%).

¹⁰⁴ Unlike the pattern in TW, TWCR and the UK, RoCR operating profits rose 5% in 2001-2003 and rose by a further 15% in 2003-2005.

Operating profit margins in TW rose 3pp in 2001-2005, faster than both the UK and TWCR (owing to declining operating profit margins in RoCR). Margin growth in TW was more than eight times larger (+ 2pp) than the UK (0.3pp) and one third larger (+ 0.7pp) than TWCR.

Faster profit margin growth in TW compared to the UK is attributable to a) slower [cyclical] fall in TW margins and b) faster recovery. TW again followed similar trajectories of growth to those experienced in the UK, where profit margins fell in 2001-2003 and recovered in 2003-2005. The initial decline was much smaller in TW (-0.1pp) than the UK (-1pp) while subsequent growth TW (3pp) was more than double the UK (1pp), resulting in faster overall growth in TW.

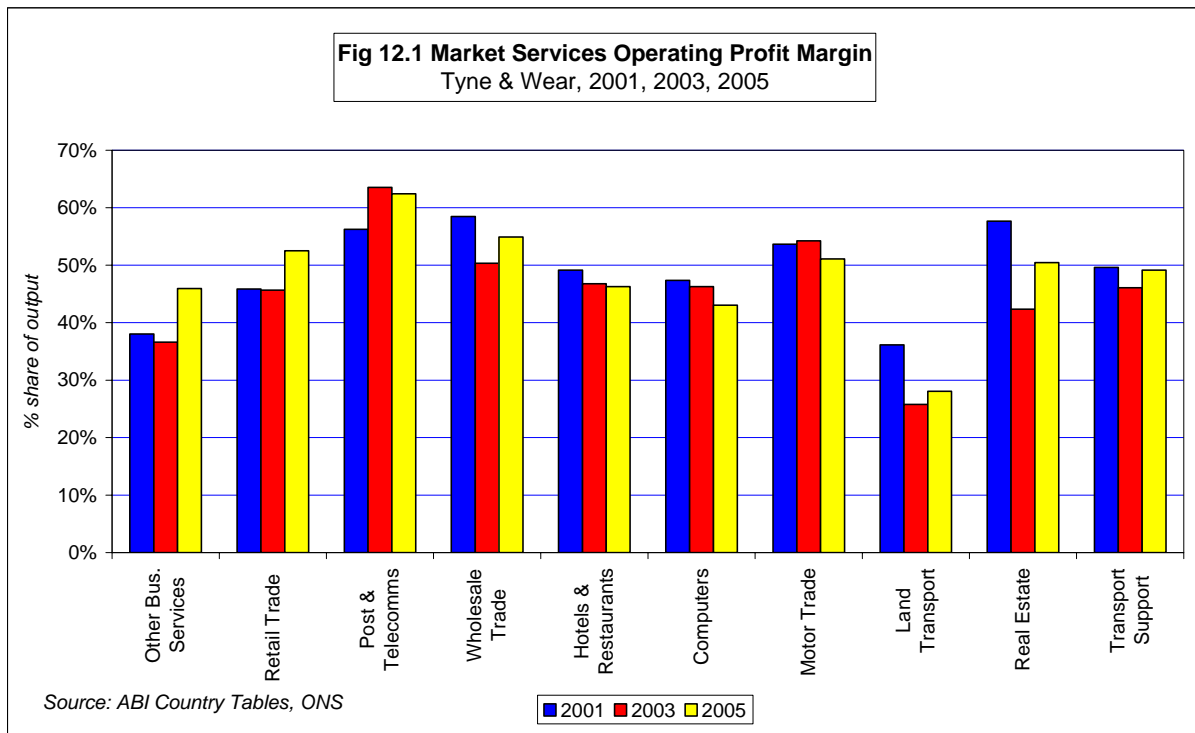
In 2001-2005, profit margins rose in three of the top ten market services (the top three services by output), one service fewer than TWCR (Fig 12.1). The fastest rises in margins were (about 7pp) in;

Other Business Services (the largest service by output), from 38% in 2001 to 46% in 2005,

Retail (from 46% to 53%)

and Post & Telecoms (from 56% to 62%).

[These fastest rises in margins are encouraging because they are in TW's three largest and most competitive market services.]



Profit margins fell in all seven remaining top ten market services in TW in 2001-2005. The sharpest falls were in Land Transport (-8pp, to 28% in 2005) and Real Estate (-7pp, to 50% in 2005). The declines in the remaining five services (Computing, Wholesale Trade, Hotels & Restaurants, Motor Trade and Transport Support) were more modest (less than 5pp).

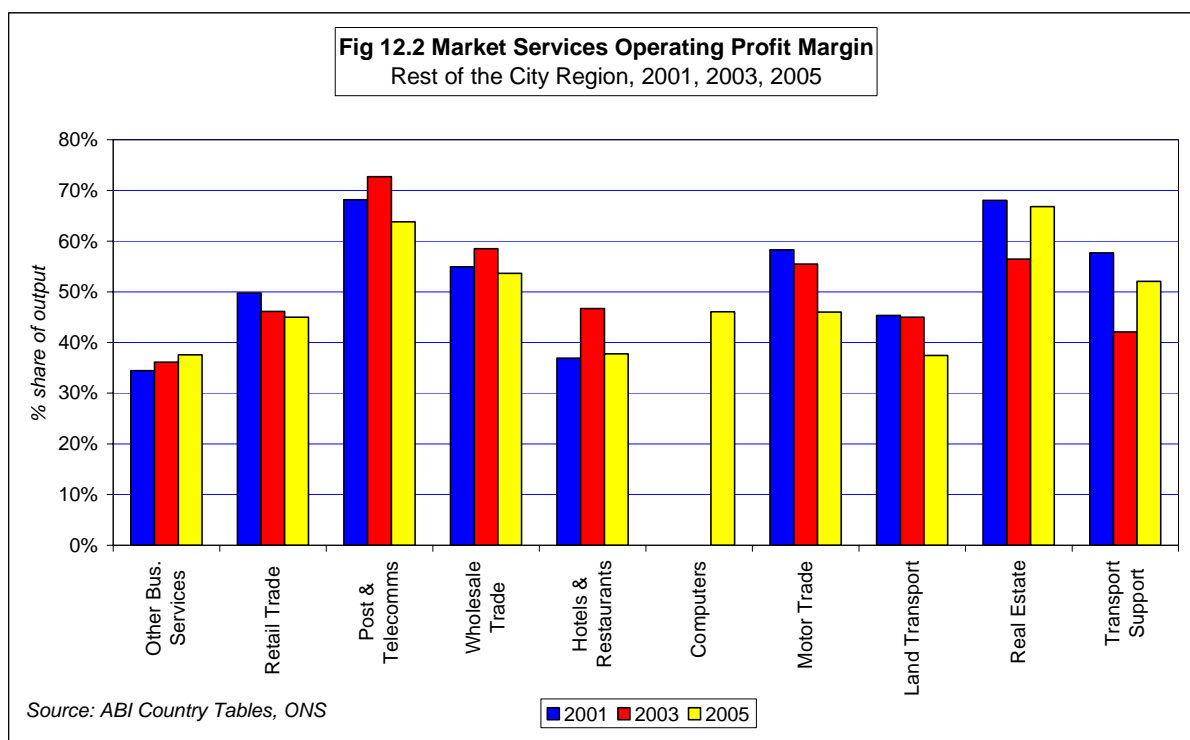
Despite overall faster growth, change in profit margins in individual services was *more favourable* in TW than the UK in only three top ten services: Retail, Other Business Services and Motor Trade. Profit margins in Retail grew 7pp in TW [probably linked to its faster 21% growth of retail sales, UK 6%], 10pp faster than the UK (where profit margins fell -3pp). Profit margins in OBS rose in both TW and the UK, but the rise was a large 6pp faster in TW (8pp) [perhaps linked to call centre expansion] than the UK (2pp). Profit margins in Motor Trade fell in both TW and the UK, but the decline was 1pp slower in TW.

The change in profit margins was *less favourable* in TW than the UK in the remaining seven top ten services (Computing, Real Estate, Wholesale Trade, Land Transport, Post & Telecoms, Transport Support, Hotels & Restaurants). This was most evident in Computing, where profit margins in TW fell 4pp but rose 9pp in the UK¹⁰⁵.

REST OF THE CITY REGION

In 2005, profit margins in the Rest of the City Region (RoCR) were 47%, 0.6pp below the UK (47%) and 4pp below TW (51%) [This may well be linked to poorer economies of scale, as establishment size is 30% smaller than in the UK and TW, see next section].

In 2005, RoCR profit margins were highest in Real Estate (67%) and Post & Telecoms (64%) [despite profit margins falling in both services in 2001-2005] (Fig 12.2). Profit margins were also high (more than 50%) in Wholesale Trade (54%) and Transport Support (52%) in 2005. Profit margins in RoCR in 2005 were lowest in Land Transport (37%), Other Business Services and Hotels & Restaurants (both 38%)¹⁰⁶.



Note: The figures for operating profit margins in Computing in 2001 and 2003 appear to be subject to data errors and have been excluded from the above figure¹⁰⁷.

Unlike all comparators, operating profit margins in RoCR *fell* 0.4pp in 2001-2005, a poorer performance than both TW and the UK (where profit margins rose 3pp and 0.3pp respectively).

¹⁰⁵ TWRI suspects the data on Computing significantly under-states the output and profits in TW.

¹⁰⁶ Profit margins in TW were lowest in Land Transport (28%), although profit margins for these services in RoCR (38%) were 10pp higher than in TW [This could be due to higher subsidies (in relation to GVA) for bus and Metro operations in RoCR].

¹⁰⁷ The fastest growth in RoCR was in Computing, which rose a massive 113pp in 2001-2005 and subsequently achieved a relatively healthy profit margin. This was a much more favourable performance than the service in TW, where profit margins fell 4pp. In 2001, profit margins in Computing had been the lowest in RoCR (-67%) as employment costs were two-thirds larger than output for the service. Computing profit margins also fell in RoCR in 2001-2003, as employment costs rose and output fell. However, output increased dramatically in 2003-2005, meaning Computing achieved a relatively healthy profit margin of 46% in 2005.

Moreover, perversely, profit margins rose marginally [0.8pp] in 2001-2003 and fell more than -1pp in 2003-2005, in sharp contrast to comparator areas where profit margins fell in the earlier period but subsequently recovered.

Profit margins rose in three market services in RoCR in 2001-2005, which matched the number of services where profits rose in TW. Profit margins in RoCR fell in the remaining seven market services.

Profit margins in RoCR rose in only two top ten market services other than Computing¹⁰⁸: Other Business Services and Hotels & Restaurants. OBS operating profit margins rose 3pp in RoCR (from 34% to 38%) less than half the rise in TW (up 8pp) but faster than the UK (2pp). Profit margins in Hotels & Restaurants grew by a marginal 1pp in RoCR [despite, or because of, a huge 66% rise in output] but this was more favourable than TW, where profit margins fell 3pp.

The fastest fall in profit margins was in Motor Trade, down 12pp (from 58% in 2001 to 46% in 2005), four times faster than the fall in TW (-3pp) [perhaps linked to slower output growth than in TW; which grew 14%]. There were also significant falls in Land Transport (- 8pp), Transport Support (- 6pp) and Retail (- 5pp). The fall in RoCR in Land Transport matched the fall in TW (- 8pp) but the falls in RoCR in the other two services were much faster than TW (profit margins in Retail *rose* 7pp in TW).

¹⁰⁸ **Caution:** Profit margins for RoCR are distorted by large implied losses in Computing in 2001 and 2003. TWRI suspects data errors; under-statements of 2001 and 2003 output.

13. MARKET SERVICES ESTABLISHMENT SIZE

- The average market services establishment in TW had 11 employees, nearly 50% larger than in RoCR (8). They remained at these levels throughout 2001-2005.
- TW has a marginally (3%) larger average market services establishment size than the UK.

Three of the market services showing signs of competitiveness in TW also had much larger average establishment size than in the UK; Computing, Other Business Services and Telecoms.

TYNE & WEAR

In 2005, the average market services establishment in Tyne & Wear (TW) had 11 employees, matching the UK average¹⁰⁹ (Table 13.1). [Strictly, TW establishments were 3% larger than in the UK.] Average establishment size remained at these levels in 2001-2005, with only minor fluctuations.

Table 13.1: Establishment Size* in Market Services in Tyne & Wear and the Rest of the City Region, with UK comparison, 2005

SIC	Service	Tyne & Wear	Rest of the City Region	UK	TW/ UK	RoCR/ UK
74	Other Business Services	12.6	6.1	8.6	1.5	0.7
52	Retail Trade	11.6	8.0	15.4	0.8	0.5
64	Post & Telecommunications	47.3	20.9	33.2	1.4	0.6
51	Wholesale Trade	10.1	6.8	11.0	0.9	0.6
55	Hotels & Restaurants	11.7	10.8	14.7	0.8	0.7
72	Computing	8.9	5.2	5.7	1.6	0.9
50	Motor Trade	8.5	6.1	8.8	1.0	0.7
60	Land Transport	16.0	7.5	12.5	1.3	0.6
70	Real Estate	6.0	4.0	5.0	1.2	0.8
63	Transport Support	17.4	11.3	24.5	0.7	0.5
	All Market Services	11.3	7.6	11.0	1.0	0.7

* = Employees per business

Average establishment size in the top ten services in TW was largest in Post & Telecoms (47), Transport Support (17) and Land Transport (16) and smallest in Computing (5).

Five of the top ten market services in TW had an average establishment size in 2005 which was greater than the UK average for the service:

- Computing (1.6)
- Other Business Services (1.5)
- Post & Telecoms (1.4)
- Land Transport (1.3)
- Real Estate (1.2)

The average establishment size in Motor Trade was 9 employees in both TW and the UK.

The average establishment size in the remaining four top ten services was below the UK. This was most evident in Transport Support (0.7) where TW was one-third (7 employees) smaller than the UK.

¹⁰⁹ It was 1 employee higher than Tyne & Wear City Region (TWCR) (owing to smaller establishment size in RoCR).

REST OF THE CITY REGION

In the Rest of the City Region (RoCR) in 2005, the average market services establishment had only 8 employees, over 30% smaller than both TW (11) and the UK (11). As observed in TW, the size in RoCR was unchanged from both 2003 and 2001.

The average establishment size in RoCR is *smaller than TW* and the UK in *all* of the top ten market services. This probably puts many of RoCR's market services firms at a competitive disadvantage – particularly those services where establishment size is only half the UK average (Retail and Transport Support). These poor economies of scale probably account for some of RoCR's low average profit margins.

14. PURCHASING OF SERVICES

This section covers purchases of ACT services, that is Advertising, Computing and Telecoms. In all cases, figures relate to purchases from external sources (i.e. outside the firm making the purchase).

- TW market services firms reported £590m of purchases of ACT services. RoCR made purchases valued at £128m, equivalent to 22% of purchases in TW.
- Advertising was the largest item purchased by both TW and RoCR.

Purchasing patterns by the main market services in TW in the previous report were assembled from their expenditure on the four major services. These were Road Transport, plus Advertising, Computer-related services and Telecoms (ACT). Data was no longer available for purchases of Road Transport services for 2001-2005 and so it has not been possible to include it in this section.

14.1. PURCHASING OF KEY SERVICES

Table 14.1: Purchasing of Key Services by Market Services in Tyne & Wear and the Rest of the City Region, with Leeds City Region and UK comparison, 2005

SIC Service	Service Purchases (£m)								
	Tyne & Wear			Rest of the City Region			UK		
	Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services
74 Other Business Services	39.3	28.3	20.0	8.7	8.2	5.9	2,662	2,234	1,896
52 Retail Trade	45.6	11.0	7.3	10.9	3.0	3.5	3,544	823	607
64 Post & Telecommunications	41.8	34.2	12.6	9.3	6.5	13.1	1,648	1,182	414
51 Wholesale Trade	181.1 ^a	8.1	11.8	5.4	2.3	2.4	4,131	785	935
55 Hotels & Restaurants	8.8	2.1	2.9	3.3	2.6	1.9	721	193	249
72 Computing	9.8	52.3	5.8	2.8	7.2	2.5	980	1,515	944
50 Motor Trade	14.7	4.0	3.1	6.0	1.3	1.9	2,413	350	302
60 Land Transport	3.1	2.8	2.7	0.6	0.5	1.2	203	227	242
70 Real Estate	6.8	4.6	3.3	3.0	1.7	1.3	771	391	328
63 Transport Support	10.8	4.4	3.1	3.8	1.2	2.4	868	436	342
Total	361.9	151.8	72.5	53.8	34.6	36.2	17,941	8,136	6,259
All Market Services	363.3	152.3	74.6	54.4	35.0	38.2	18,597	8,601	6,580

Totals may not sum due to rounding

a. In TWRI's judgement, the figure for purchases of Advertising services by Wholesale Trade in TW is far too high. A more reasonable estimate would be around £50m. Table 8.3 suggests that the unusually high figure for purchasing of Advertising services by Wholesale Trade in TWCR was largely attributable to an over-estimate of purchases within TW.

TYNE & WEAR

In 2005, the market services sector in TW reported purchases of Advertising, Computer and Telecoms (ACT) services worth over £590m¹¹⁰ (current prices), just under 2% of the total spent in the UK (£33,778m) (Table 14.1).

As observed in the UK, Wholesale Trade spent the largest amount from TW (£210m, which is oddly very high [see note a, above] just £10m less than TWCR¹¹¹). The value of purchases in TW was also high from Post & Telecoms (£89m) and from Other Business Services (£88m).

¹¹⁰ This figure excludes purchases made by Air Transport and Research & Development, the figures for which were suppressed for the majority of 2001-2005 in Tyne & Wear and could not be reliably estimated.

¹¹¹ This suggests that the unusually high figures for purchasing of Advertising services by Wholesale Trade in TWCR was largely attributable to an over-estimate of purchases within TW.

Expenditure on Advertising services was the largest purchase, £362m from TW. Expenditure on Telecoms was the smallest service item purchased by the top ten services, £73m from TW.

Caution on Wholesale Trade Advertising Spend:
 TWRI notes that the reported spend is about four times the UK average in relation to GVA (Table 14.3). Thus this and total could be over-stated by about £130m.

Market services purchases of ACT services appear greatly over-stated for Wholesale Trade in TW, at over 34% of the market services total (Table 14.2).

Table 14.2: Spend on Key Services by Market Services in Tyne & Wear and the Rest of the City Region, with UK comparison, 2005

SIC	Service	Service Purchases (£m)					
		Tyne & Wear	Rest of the City Region	UK	TW-UK	RoCR-UK	TW-RoCR
(% of total spent on the three major services attributed to each industry)							
74	Other Business Services	14.8%	17.9%	20.1%	-5.3	-2.2	-3.0
52	Retail Trade	10.8%	13.7%	14.7%	-3.9	-1.1	-2.8
64	Post & Telecommunications	15.0%	22.7% *	9.6%	5.4	13.1	-7.7
51	Wholesale Trade	34.1%	7.8%	17.3%	16.7	-9.5	26.2
55	Hotels & Restaurants	2.3%	6.1%	3.4%	-1.1	2.7	-3.8
72	Computing	11.5%	9.8%	10.2%	1.3	-0.4	1.7
50	Motor Trade	3.7%	7.2%	9.1%	-5.4	-1.9	-3.5
60	Land Transport	1.5%	1.9%	2.0%	-0.5	-0.1	-0.4
70	Real Estate	2.5%	4.7%	4.4%	-1.9	0.3	-2.2
63	Transport Support	3.1%	5.9%	4.9%	-1.8	1.0	-2.8
	Total	99.3%	97.7%	95.7%	3.6	2.0	1.6
	All Market Services	100.0%	100.0%	100.0%			

* This Figure has been estimated by TWRI
 Totals may not sum due to rounding

REST OF THE CITY REGION

In 2005, the market services sector in the Rest of the City Region (RoCR) purchased Advertising, Computer and Telecoms (ACT) services valued at £128m (current prices), just 0.4% of the total spent in the UK (£33,778m).

Purchases in RoCR came particularly from Post & Telecoms (£29m) and Other Business Services (£23m).

Advertising services was the largest service item purchased by the top ten market services in RoCR. Unlike its comparators, expenditure by the top ten market services in RoCR was smallest on Computer services (£35m) although this was just £1m less than the amount spent on Telecoms services (£36m) [This relatively high Telecoms spend in RoCR is probably one of the (fixed) costs of small average establishment size. It might also be a reflection of its lower population density compared to TW, thus requiring more use of Telecoms, in relation to output.].

14.2. RATIO OF SPEND ON SERVICES TO OUTPUT (GVA)

TYNE & WEAR

The amount spent on ACT services in TW in 2005 was equivalent to just under 9% of its market services output, 2pp higher than the UK (Table 14.3). As in TWCR and the UK, TW spent the greatest on Advertising services and the smallest on Telecoms as ratios to output¹¹².

TW spent a reported more than 5% of its output on *Advertising* services in 2005, more than all comparators. This was, however, largely due to Wholesale Trade, which spent a massive [and completely implausible] 25% of its output on Advertising service, compared to 7% in the UK [TWRI suggests in a correction to Table 14.3, actual market services spend on Advertising could be 3.5% of output].

Table 14.3: Market Services' Expenditure on Advertising, Computer and Telecoms Services as a Proportion of Output in Tyne & Wear and the Rest of the City Region, with UK comparison, 2005

SIC	Service	Tyne & Wear			Rest of the City Region			UK		
		Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services	Advertising Services	Computer Services	Telecoms Services
74	Other Business Services	2.1%	1.5%	1.1%	2.0%	1.9%	1.4%	2.2%	1.8%	1.6%
52	Retail Trade	3.8%	0.9%	0.6%	3.4%	0.9%	1.1%	5.9%	1.4%	1.0%
64	Post & Telecoms	4.7%	3.8%	1.4%	5.1%	3.6%	7.2%	4.9%	3.5%	1.2%
51	Wholesale Trade	25.1%	1.1%	1.6%	2.8%	1.2%	1.3%	6.9%	1.3%	1.6%
55	Hotels & Restaurants	2.2%	0.5%	0.7%	1.4%	1.2%	0.8%	2.5%	0.7%	0.9%
72	Computing	2.5%	13.2%	1.5%	1.9%	4.9%	1.7%	2.7%	4.2%	2.6%
50	Motor Trade	4.6%	1.3%	1.0%	4.9%	1.0%	1.6%	10.7%	1.6%	1.3%
60	Land Transport	1.2%	1.1%	1.0%	0.5%	0.4%	1.0%	1.1%	1.3%	1.4%
70	Real Estate	2.8%	1.9%	1.3%	3.2%	1.8%	1.4%	3.1%	1.6%	1.3%
63	Transport Support	4.5%	1.8%	1.3%	6.0%	1.9%	3.8%	4.0%	2.0%	1.6%
	Total	5.6%	2.3%	1.1%	2.8%	1.8%	1.9%	4.2%	1.9%	1.5%
	All Market Services	5.4%	2.3%	1.1%	2.8%	1.8%	2.0%	4.1%	1.9%	1.5%

Note: In TWRI's judgement, the figure for purchases of Advertising services by Wholesale Trade in TWCR is far too high. A more reasonable estimate would be around £50m. Table 8.6 suggests that the unusually high figure for purchasing of Advertising services by Wholesale Trade in TWCR was largely attributable to an over-estimate of purchases within TW.

As a 'correction', if TW Wholesale's Advertising spend was £130m lower, the overall market services spend on Advertising falls from 5.4% of output to 3.5%.

TW spent over 2% of its market services output on purchasing *Computer* services in 2005, slightly (0.4pp) more than the UK. Seven of the top ten Market Services had higher proportions than the UK. [Unsurprisingly] This was greatest in Computing, where the proportion spent by TW (13%) was three times the spend by the UK (in ratio to output). [This suggests a high level of contracting-out by Computing firms in TW - perhaps to buy more sophisticated services than they can provide in-house.]

TW spent just 1.1% of its Market Services output on *Telecoms* in 2005, 0.4pp less than the proportion spent in the UK. TW firms will have been helped, slightly, by their (3%) larger size – but this cannot be the main reason for their lower spend on telecoms. [High population density in TW probably means more business is conducted face-to-face, requiring less use of Telecoms, relative to output than in the UK.]

REST OF THE CITY REGION

In 2005 RoCR firms spent the equivalent of almost 7% of their market services output on purchasing ACT services, less than TW (9%) but slightly more than the UK (6%).

¹¹² Figures for Tyne & Wear exclude Air Transport and Research & Development (as previously noted).

RoCR spent the largest proportion of its output on *Advertising* services (almost 3%), which was largely due to the proportions spent by Transport Support (6%), Post & Telecoms (5%) and Motor Trade (also 5%).

In contrast to its comparators, RoCR spent the smallest proportion of its output on *Computer Services*, less than 2% (perhaps reflecting RoCR's small establishment size). Computing in RoCR spent 5% on purchasing Computer Services (effectively on out-sourcing), less than half the proportion spent by TW (but above the 4.2% in the UK). [TWRI suspects RoCR's Computing firms, which are smaller than in TW, are also relatively specialised. Their reported productivity has shot up, see §11.2].

RoCR spent 2.2% of its output on purchasing *Telecoms* services in 2005, double the proportion spent in TW and 0.5pp more than in the UK. [This presumably reflects fixed costs for firms which are smaller than in the UK. It may also reflect a business cost of locations in areas of lower population density/greater distance to customers]. Post & Telecoms spent more than 7% of its output on Telecom services [possibly out-sourcing], which was a significant contribution to the overall higher proportion spent by RoCR.

PART C: THE CONSTRUCTION INDUSTRY IN TYNE & WEAR AND THE CITY REGION

15. THE CONSTRUCTION INDUSTRY

The construction industry is particularly difficult to measure. The ABI covers firms and employees but does not capture output from the self-employed. The omission of self-employment is particularly serious in construction, as it constitutes approximately one fifth of employment in the industry¹¹³.

- Output from the construction industry was £1,530m in TWCR in 2005, equal to 53% of the output in Leeds CR (£2,870m). Output in TW (£1,060m) was augmented by [a large] 44% by RoCR (£471m).
- Output grew 31% in TWCR, nearly two-thirds faster than the UK (19%) and faster even than Leeds CR (27%). Growth was markedly faster in TW (35%) than RoCR (22%).
- Construction employed 39,400 in TWCR in 2005.
- Employment rose 8% in TWCR, faster than the UK (5%) and Leeds CR (6%). Faster employment growth in TWCR was attributable to RoCR (12%), double the rate in TW (6%).
- TWCR construction productivity was £38,900 in 2005, 11% less than the UK (£43,900) and 16% below Leeds CR (£46,200). Productivity was low in both TW (£39,100) and RoCR (£38,600).
- Productivity rose 21% in both TWCR and Leeds CR, over 1½ time as fast as the UK (13%). Fast productivity growth in TWCR was attributable to TW (28%), more than three times as fast as RoCR (8%).
- TWCR operating profits were £667m, equal to less than half Leeds CR (£1,364m). Operating profits rose 43% in TWCR, slower than the UK (55%) and Leeds CR (48%). Slower growth in TWCR was due to much slower growth in RoCR (24%).
- Profit margins were 44% in TWCR, less than the UK (52%) and Leeds CR (47%). Profit margins rose 4pp in 2001-2005, faster than the UK (2pp) but slower than Leeds CR (7pp). Profit margins were higher in RoCR (48%) than TW (42%) but growth was slower.
- TWCR spent £37m on purchasing the three main [ACT] services, a very high 5% of the total spent by the UK and half that spent by Leeds CR (£73m).

15.1. OUTPUT

TYNE & WEAR CITY REGION

In 2005, output from the construction industry in TWCR was £1,534m, more than 2% of UK construction output (£63,196m) and equal to just over half (53%) the output in Leeds CR (£2,875m) (current prices). [TWRI estimates that construction output equated to 6.2% of the TWCR economy in 2005¹¹⁴]

In 2001-2005, output in the construction industry in TWCR grew 31%, two-thirds faster than the UK (19%) and 4pp faster than in Leeds CR (up 27%) (Table 15.1).

¹¹³ 2001 Census © Crown Copyright (SO38) (amongst 16-74 year-olds)

¹¹⁴ Assuming TWCR output (GVA) was £24.7bn.

TYNE & WEAR AND THE REST OF THE CITY REGION

Output from the construction industry in TW in 2005 was £1,060m, 69% of total construction output in TWCR. Output in TW grew 35% in 2001-2005, *faster than all comparators*. [Construction output growth in TW in 2001-05 will have been boosted by commercial development of offices, hotels and retailing – see Box 15.1. Public works, notably programmes of new school-building, will also have been a positive factor. Some new NHS buildings will also have been included, although Newcastle’s £300m RVI project started after this.]

Table 15.1: Construction Output and Employment in Tyne & Wear City Region, Tyne & Wear and the Rest of the City Region, with Leeds City Region and UK Comparison

	Wear City Region	Tyne & Wear	Rest of the City Region	Leeds City Region	UK
Output (£m) (current prices)	1,534	1,063	471	2,875	63,196
Output Growth (2001-2005)	31%	35%	22%	27%	19%
Employment	39,400	27,200	12,200	62,300	1,440,000
Employment Growth (numerical)	2,900	1,500	1,300	2,900	75,000
Employment Growth (% Change)	8%	6%	12%	5%	5%

Source, ABI County Tables, ONS

Box 15.1 Some Major Construction Projects in 2005

- selected from TWRI’s Job Gains Database*

	Job Gains (not construction jobs)	Date	Value
EDS, Cobalt Business Park, North Tyneside	1,000 jobs	June	
Northern Rock, Gosforth, Newcastle	1,000 jobs	July	
Ilva, Metro Retail Park, Gateshead	150 jobs	Jan.	
GE Consumer Finance, Cobalt Business Park, North Tyneside	150 jobs	By June	
Asda, Boldon, S. Tyneside	100 jobs	Mar	
RoCR:			
Tesco, Hexham, Tynedale	400 jobs	Oct	
* Only projects thought to be associated with major new building are listed.			
Note: The SageGateshead opened in 2004			£70m
Hilton NewcastleGateshead (in Gd), opened 2004			£25m
In 2001, work was being concluded on the £100m extension of the Metro to Sunderland.			

In 2005, construction output in RoCR was £470m¹¹⁵. RoCR added a large 44% to the output in TW, much more than in either the manufacturing sector or market services sector. Output in RoCR grew 22% in 2001-2005, 3pp faster than the UK but more than one-third slower than TW (meaning RoCR has been holding back growth in construction output in TWCR).

RoCR’s large (44%) addition to construction output could be partly due to higher house-building (dwellings in relation to population, with a higher proportion of detached homes – of higher construction value).

¹¹⁵ This might include the construction of Durham City’s new Dryburn Hospital.

15.2. EMPLOYMENT

TYNE & WEAR CITY REGION

In 2005, construction employment in TWCR (39,400) was relatively high at 3% of total UK industry employment and equal to nearly two-thirds employment in Leeds CR (62,300).

Construction employment in TWCR rose 8% in 2001-2005¹¹⁶. Growth in TWCR employment was 3pp faster than both Leeds CR and the UK (both 5%)¹¹⁷. This reflects the faster output growth in TWCR.

TYNE & WEAR AND THE REST OF THE CITY REGION

The TW construction industry employed 27,200 in 2005, just under 2% of total UK construction employment and 69% of total construction employment in TWCR.

In 2001-2005, employment grew 6% (1,500) in TW¹¹⁸. Employment growth in TW matched the UK in 2001-2005, although the timing of growth in TW was less even (essentially later) than in the UK. Employment growth in TW was 2pp slower than TWCR (8%), reflecting significant employment growth in RoCR (see below).

In 2005, the RoCR construction industry employed 12,200, just under one-third (31%) of total construction employment in TWCR. Employment in RoCR grew 12% (1,300) in 2001-2005, twice as fast as TW (contributing to higher growth in TWCR relative to both its comparators)¹¹⁹. [RoCR's faster employment growth, despite slower output growth than TW suggests the output growth in RoCR, was in lower value projects than in TW. TWRI suggests the mix of output growth in TW is likely to have had a higher content of civil-engineering (inc. public investments such as schools); RoCR may have a higher content of house-building (both as % of value of all construction output).]

15.3. PRODUCTIVITY

TYNE & WEAR CITY REGION

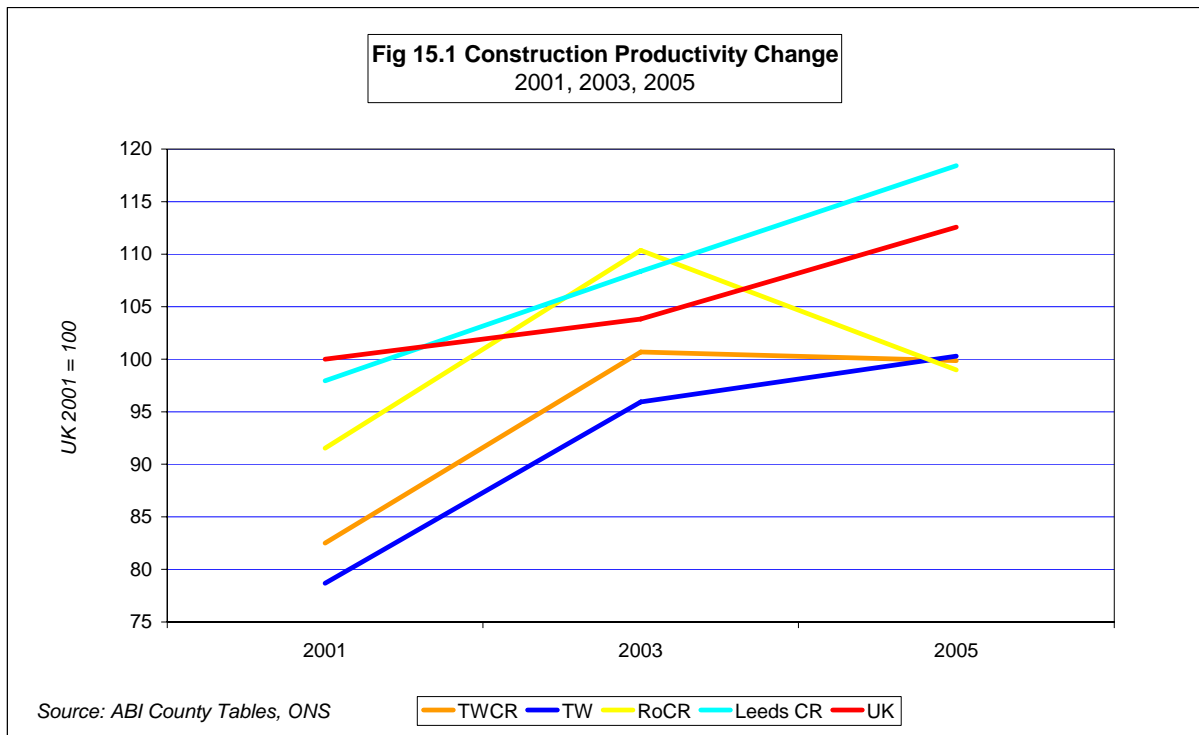
In 2005, productivity in TWCR construction was £39,900 (current prices). This was £4,000 (9%) less than in the UK (£43,900). TWCR's construction productivity was a wider £7,200 (14%) lower than in Leeds CR (£46,200) (Fig 15.1).

¹¹⁶ Employment fell 14% (-5,200) in 2001-2003, but improved in 2003-2005, rising 26% (8,100).

¹¹⁷ Employment in Leeds CR also fell in 2001-2003 (-4%) and rose in 2003-2005 (9%). In contrast, UK construction employment rose in both periods, although growth in the earlier years was marginal (less than 1%).

¹¹⁸ Employment in TW followed the pattern observed in TWCR, falling 18% (- 4,600) in 2001-2003 but improving in 2003-2005, when it rose 29% (6,100).

¹¹⁹ As observed in TW, employment in RoCR fell in 2001-2003 (-5%) but recovered in 2003-2005 (18%).



In 2001-2005, productivity in TWCR grew 21% (£6,500) from £30,700 in 2001 to £37,200 in 2005 (2003 prices). This matched the pace of productivity growth in Leeds CR, which was 21% (£7,600) from £36,400 in 2001 to £44,100 in 2005. The productivity growth in both CRs [helped by stronger output growth] was 1½ times as fast as in the UK, which rose 13% in 2001-2005.

TYNE & WEAR AND THE REST OF THE CITY REGION

Construction productivity in TW in 2005 was £39,100, £4,800 (11%) less than the UK but £200 more than TWCR (owing to lower productivity in RoCR, see below). Productivity in TW in 2001-2005 rose a very rapid 28% (£8,000) from £29,300 in 2001 to £37,300 in 2005 (2003 prices), more than twice as fast as in the UK. [This might well reflect a shift in TW's mix of construction output towards higher productivity projects such as civil engineering; schools and offices etc..]

In 2005, productivity in RoCR was £38,600, £5,300 (12%) lower than in the UK. Productivity in RoCR rose just 8% (£2,800) in 2001-2005, 20pp slower than TW (again meaning that RoCR is holding back growth in TWCR) owing to a large fall in 2003-2005. [This might reflect the ending of projects with high productivity in construction – such as, perhaps, Dalton Retail Park¹²⁰ which opened in 2003 or the new Hexham Hospital.]

15.4. OPERATING PROFIT

TYNE & WEAR CITY REGION

In 2005, TWCR's operating profit in construction was, at £667m, under half the operating profit in Leeds CR (£1,364m in 2005) (current prices) [despite TWCR output equal to 53% of Leeds CR's].

In 2001-2005, operating profit in TWCR rose [a real] 43% from £445m in 2001 to £636m in 2005. Operating profit in Leeds CR in the same period rose 48% from £880m to £1,301m. The rise in

¹²⁰ In Easington, Co. Durham.

operating profit in both CRs –despite much faster output growth than the UK –was slightly *slower* than in the UK, where operating profit rose 55% from £22,429m in 2001 to £34,702m in 2005.

TYNE & WEAR AND THE REST OF THE CITY REGION

Operating profit in 2005 in TW was £441m, 1.3% of total UK construction operating profits. Growth in operating profits in TW matched the UK, rising by a massive real 55% from £272m to £421m in 2005.

In 2005, operating profit in RoCR was £225m, equal to more than half (51%) the profits of TW. In RoCR profits in construction were high earlier than in TW; thus in 2001-2005, operating profits in RoCR rose ‘only’ 24%, from £173m to £215m in 2005, less than half as fast as in TW and the UK.

15.5. OPERATING PROFIT MARGINS

TYNE & WEAR CITY REGION

In 2005, profit margins in TWCR were 44%, up 4pp from 40% in 2001. TWCR, however, had 4pp lower profit margins than in Leeds CR¹²¹ in 2005, which had risen 7pp to 47% in 2005 from 41% in 2001.

The profit margins in both CRs in 2005 were lower than in the UK, where profit margins were 52%. However, *growth* in profit margins in both TWCR and Leeds CR was 2-3½ times that in the UK, where profit margins rose just 2pp from 50% in 2001.

TYNE & WEAR AND THE REST OF THE CITY REGION

Operating profit margins in TW were 41.5% in 2005, a large 11pp less than in the UK and 2pp less than in TWCR. Profit margins in TW grew 5pp in 2001-2005, from 36% in 2001.

RoCR’s operating profit margins were 6pp above TW, at 48%. However, margins growth in RoCR was slower than TW, as operating profit margins in RoCR rose just 1pp in 2001-2005.

15.6. INVESTMENT

Caution: The regional capital expenditure figures do not meet the ONS quality standards and, consequently, do not have National Statistics status. The following estimates of investment in construction are very unreliable in the judgement of TWRI.

TYNE & WEAR CITY REGION

Investment in the construction industry in TWCR was £54m in 2005, less than half the investment in Leeds CR (£114m) (current prices). Investment was 2% and 3% of total UK construction investment (£3,382m) in TWCR and Leeds CR in 2005 respectively

Overall, construction investment in TWCR *fell 15%* in 2001-2005. Investment fluctuated sharply in this period, falling -43% (- £26m) from £60m in 2001 to £34m in 2003, then rising 50% (£17m) to £51m in 2005 (2003 prices)¹²².

¹²¹ *Leeds CR’s much greater profit margin growth than in TWCR can be attributed to its greater control of its payroll; its employment grew 5% instead of 8% in TWCR.*

The decline in construction investment in TWCR was 12pp more rapid than in the UK, where investment in construction fell 3% overall. UK investment in the industry declined steadily from £3,319m in 2001 to £3,215m in 2003, then again to £3,227m in 2005 (2003 prices).

Net investment per employee in TWCR was low at £1,360 in 2005 (current prices). This was both £480 (26%) lower than in Leeds CR (£1,840) and £990 (42%) lower than the UK (£2,350) [This very low investment probably partially explains TWCR's 14% lower productivity than in Leeds CR].

TYNE & WEAR AND THE REST OF THE CITY REGION

Investment in TW's construction industry was £42m in 2005, 1% of the UK total for construction.¹²³ Investment fell -10% in 2001-2005, 7pp slower than the UK and 5pp slower than in TWCR (owing to faster falls in RoCR, see below).

In RoCR, investment in the construction industry was just £12m in 2005, adding just 29% (£12m) to the value of investment in TW (current prices). Investment in RoCR fell a massive -30% in 2001-2005¹²⁴. In contrast to TW, the fall in RoCR was much faster than the UK.

Net investment per employee in TW was £1,540 in 2005, £180 higher than in TWCR, but still £810 (34%) lower than the UK (current prices).

Net investment per employee was just £950 in 2005 in RoCR, £590 lower than TW and a massive £1,400 less than the UK.

15.7. ESTABLISHMENT SIZE

TYNE & WEAR CITY REGION

Construction establishments in TWCR are about 1½ times as large as the UK average; in 2005 10 employees. TWCR establishment size was up 1 employee from 2003, but down 1 employee from 2001. Average establishment size in Leeds CR was 7 employees throughout 2001-2005.

The average establishment size in TWCR was 3 employees larger than in the UK in 2005 (7), while the average establishment size in Leeds CR matched the UK.

TYNE & WEAR AND THE REST OF THE CITY REGION

The average construction establishment in TW in 2005 had 12 employees, up 2 employees from 2003 but down 1 employee from 2001. This was 5 employees larger than the UK in 2005 and 2 employees larger than TWCR [perhaps, oddly, TW derives essentially no higher productivity than RoCR, despite the much larger establishment size].

Establishment size in RoCR is much smaller than its comparators, and is falling. Average establishment size in RoCR was 8 employees in 2005 matching 2003, but down 1 employee from 2001.

¹²² Investment in Leeds CR rose 4% overall but also fluctuated in 2001-2005, rising sharply from £105m in 2001 to £220m in 2003, then falling to £109m in 2005 (2003 prices).

¹²³ In TW, investment fell sharply in 2001-2003, down 46% (£21m) from £45m in 2001 to £23.9m in 2003, but rose 68% (£16m) £40m in 2005 (2003 prices).

¹²⁴ Despite a 13% rise in 2003-2005.

15.8. PURCHASING OF SERVICES

TYNE & WEAR CITY REGION

In 2005, Construction in TWCR spent £37m (current prices) on ACT services¹²⁵ (Table 15.2). This was 2% of the total spent by construction in the UK and was equivalent to half that spent in Leeds CR in 2005 (£73m). The largest service purchase in both TWCR and Leeds CR was on Advertising, which accounted for 49% and 47% of the total spent on services respectively in 2005.

Table 15.2: Construction Purchasing of Key Services in Tyne & Wear City Region, Tyne & Wear and the Rest of the City Region, with Leeds City Region and UK Comparison, 2005 (current prices)

Service	Tyne & Wear City Region		Tyne & Wear		Rest of the City Region		Leeds City Region		UK	
	£m	% of total	£m	% of total	£m	% of total	£m	% of total	£m	% of total
Advertising Services	17.8	48.7%	13.9	50.7%	3.9	42.5%	34.2	46.8%	751	42.2%
Computer Services	6.7	18.3%	4.6	16.9%	2.1	22.6%	12.4	17.0%	338	19.0%
Telecommunications	12.1	33.0%	8.9	32.4%	3.2	34.9%	26.4	36.2%	692	38.9%
Total	36.5		27.4		9.1		73.0		1,781	

Source, ABI County Tables, ONS

TYNE & WEAR AND THE REST OF THE CITY REGION

In 2005, construction firms in TW spent £27m on ACT services, 75% of the total spent on the purchasing of the three main services in TWCR as a whole. Purchasing of Advertising services again accounted for 51% of the total spent on the three main services in 2005. Purchasing of Advertising services more than doubled in both TWCR and TW in 2001-2005; this is over twice as fast as the rise in the cash value of output. [Perhaps some of the extra rise was driven by labour recruitment difficulties].

Construction firms in RoCR spent £9m on the three services in 2005, adding one-third to the value of purchases in TW.

¹²⁵ ACT services means Advertising, Computing and Telecoms.

APPENDICES

APPENDIX 1. DIFFERENCES BETWEEN SIC (2003) AND SIC(92)

The data for 2005 and 2003 were coded according to SIC(2003) whereas the data for 2001 was coded using the earlier SIC (92).

This change will have moved some activity between SIC codes. In particular, ‘head offices’, which were coded to the main activity of the businesses they serve under SIC(92), have moved to 74.15 ‘Holding Offices’ under SIC (2003).

Also, code 74.83 ‘Secretarial and Translation Activities’ under SIC(92) has been divided under SIC(2003) to include a specific section for ‘call centre activities’ (74.86). Box 7.1 notes that while call centre activities should generally be coded under 74.86, if an enterprise has its own call centres, it is likely that they would be recorded under the SIC code for the dominant part of that enterprise (similar to the way in which ‘head offices’ were coded under previous SICs). If an enterprise contracts-out work to carry out the call centre function, this would be recorded as 74.86.

Further details can be found on the ONS website:

<http://www.statistics.gov.uk/statbase/Product.asp?vlnk=14012>.

A full table of changes between the SIC(92) and SIC(2003) is available at:

http://www.statistics.gov.uk/methods_quality/sic/downloads/Table_of_changes.pdf.

APPENDIX 2. CHAPTER 2: TIME SERIES 2001-2005 MARKET SERVICES OUTPUT

Appendix 2.1: Market Services in Tyne & Wear City Region: Output (GVA), 2001-2005

SIC	Service	Output at Current Prices			Output at 2003 Prices		
		GVA (£m)			GVA (£m)		
		2001	2003	2005	2001	2003	2005
50	Motor, Sale & Repair	351.4	467.0	438.7	375.5	467.0	418.6
51	Wholesale	792.1	715.0	910.1	846.3	715.0	868.4
52	Retail (exc Motor)	1,120.2	1,252.0	1,519.2	1,196.8	1,252.0	1,449.6
55	Hotels and Restaurants	466.5	479.4	633.4	498.4	479.4	604.4
60	Land Transport	316.1	339.4	385.2	337.7	339.4	367.5
61	Water Transport	4.1	4.6	10.7	4.4	4.6	10.2
62	Air Transport	70.4	70.5	80.9	75.3	70.5	77.2
63	Transport Support, etc	199.9	242.2	303.1	213.5	242.2	289.2
64	Post and Telecommunications	913.7	1,083.0	1,080.4	976.2	1,083.0	1,030.9
70	Real Estate Activities	280.8	222.8	335.4	300.0	222.8	320.0
71	Renting Machinery/Equipment, etc	190.9	136.6	172.8	204.0	136.6	164.9
72	Computing and Related Activities	347.7	364.8	541.3	371.5	364.8	516.5
73	Research and Development	*	*	*	*	*	*
74	Other Business Activities	1,638.0	1,453.2	2,260.5	1,750.0	1,453.2	2,157.0
	Total Market Services	6,691.9	6,830.3	8,671.7	7,149.5	6,830.3	8,274.6

* Indicates that a value is confidential and has been suppressed

APPENDIX 3. CHAPTER 4: TIME SERIES 2001-2005 MARKET SERVICES PRODUCTIVITY

Appendix 4.1: Market Services in Tyne & Wear City Region: Productivity (GVA/employee), 2001-2005

SIC	Service	Productivity at Current Prices			Productivity at 2003 Prices		
		2001	2003	2005	2001	2003	2005
50	Motor, Sale & Repair	30,574	33,777	34,866	32,665	33,777	33,269
51	Wholesale	41,228	39,335	47,622	44,047	39,335	45,441
52	Retail (exc Motor)	16,721	16,917	20,467	17,864	16,917	19,529
55	Hotels and Restaurants	11,979	12,587	14,049	12,798	12,587	13,405
60	Land Transport	27,090	29,193	31,148	28,943	29,193	29,722
61	Water Transport	31,995	44,637	53,790	34,183	44,637	51,326
62	Air Transport	46,812	61,573	86,510	50,013	61,573	82,547
63	Transport Support, etc	33,319	38,213	42,341	35,597	38,213	40,401
64	Post and Telecommunications	58,573	77,591	72,183	62,578	77,591	68,877
70	Real Estate Activities	33,884	29,412	34,596	36,200	29,412	33,012
71	Renting Machinery/Equipment, etc	53,180	46,899	46,469	56,816	46,899	44,340
72	Computing and Related Activities	35,755	42,702	53,051	38,200	42,702	50,621
73	Research and Development	*	*	*	*	*	*
74	Other Business Activities	28,634	26,688	32,695	30,592	26,688	31,198
	Total Market Services	26,664	27,099	30,893	28,487	27,099	29,478

* Indicates that a value is confidential and has been suppressed

APPENDIX 4. CHAPTER 5: TIME SERIES 2001-2005 MARKET SERVICES PROFITS AND MARGINS

Appendix 5.1: Market Services in Tyne & Wear City Region: Operating Profits and Profit Margins, 2001-2005

SIC	Service	Operating Profits (£m in 2003 prices)			Operating Profit Margins		
		2001	2003	2005	2001	2003	2005
50	Motor, Sale & Repair	207	255	208	55.0%	54.6%	49.7%
51	Wholesale	488	376	474	57.7%	52.6%	54.6%
52	Retail (exc Motor)	559	573	738	46.7%	45.8%	50.9%
55	Hotels and Restaurants	229	224	261	45.9%	46.8%	43.2%
60	Land Transport	134	113	114	39.7%	33.3%	31.1%
61	Water Transport	3	2	4	57.0%	53.2%	36.8%
62	Air Transport	24	*	48	32.0%	*	61.6%
63	Transport Support, etc	110	110	144	51.6%	45.3%	49.8%
64	Post and Telecommunications	575	709	646	58.9%	65.5%	62.7%
70	Real Estate Activities	178	101	176	59.5%	45.4%	55.0%
71	Renting Machinery/Equipment, etc	130	89	116	63.6%	65.2%	70.2%
72	Computing and Related Activities	125	116	227	33.7%	31.7%	43.9%
73	Research and Development	*	*	*	*	*	*
74	Other Business Activities	655	531	957	37.4%	36.5%	44.4%
	Total Market Services	3,416	3,270	4,113	47.8%	47.9%	49.7%

* Indicates that a value is confidential and has been suppressed

APPENDIX 5. CHAPTER 6: TIME SERIES 2001-2005 MARKET SERVICES INVESTMENT

The regional capital expenditure figures do not meet the ONS quality standards and, consequently, **do not have National Statistics status**. It can be dangerous to try and draw conclusions from investment data and patterns.

Appendix 6.1: Net Investment in Market Services, Tyne & Wear City Region, with Leeds City Region & UK comparison, 2001, 2003, 2005

Service	Net Investment (£m at 2003 prices)								
	Tyne & Wear City Region			Leeds City Region			UK		
	2001	2003	2005	2001	2003	2005	2001	2003	2005
Other Business Services	61	57	70	151	50	118	5,613	4,200	4,065
Retail Trade	180	151	206	288	300	333	7,332	7,448	8,244
Post & Telecommunications	429	274	265	202	305	317	6,591	6,410	6,640
Wholesale Trade	33	40	33	107	169	133	4,209	3,208	2,558
Hotels & Restaurants	113	58	51	145	130	166	4,705	3,217	3,265
Computing	31	35	66	60	53	69	1,908	1,680	1,182
Motor Trade	22	31	31	35	61	47	1,384	1,512	1,027
Land Transport	76	65	40	72	128	81	2,379	2,500	2,406
Real Estate	44	55	149	186	141	*	4,565	1,921	2,533
Transport Support	29	*	33	*	*	*	5,058	6,364	6,460
All Market Services	1,141	750	979	1,462	1,457	1,448	51,145	44,189	43,760

Totals may not sum due to rounding

* Indicates that a value is confidential and has been suppressed

" The regional capital expenditure figures do not meet the ONS quality standards and, consequently, do not have National Statistics status."

Appendix 6.2 Net Investment per Employee in Market Services, Tyne & Wear City Region with Leeds City Region & UK Comparison, 2005 (2003 prices)

Service	Tyne & Wear City Region	Leeds City Region	UK	TWCR/UK	LCR/UK
Other Business Services	1,018	929	1,190	0.9	0.8
Retail Trade	2,777	2,318	2,652	1.0	0.9
Post & Telecommunications	17,679	16,963	12,552	1.4	1.4
Wholesale Trade	1,736	2,183	2,111	0.8	1.0
Hotels & Restaurants	1,131	2,206	1,704	0.7	1.3
Computing	6,475	4,701	2,021	3.2	2.3
Motor Trade	2,460	1,689	1,635	1.5	1.0
Land Transport	3,205	3,466	4,142	0.8	0.8
Real Estate	15,349	*	5,087	3.0	N/A
Transport Support	4,597	*	15,529	0.3	N/A
All Market Services	3,488	2,626	3,296	1.1	0.8

Totals may not sum due to rounding. " The regional capital expenditure figures do not meet the ONS quality standards and, consequently, do not have National Statistics status."

Appendix 6.3: Net Investment in Market Services, Tyne & Wear, with UK comparison, 2001, 2003, 2005

Service	Net Investment (£m at 2003 prices)								
	Tyne & Wear			Rest of the City Region			UK		
	2001	2003	2005	2001	2003	2005	2001	2003	2005
Other Business Services	39	35	51	22	21	19	5,613	4,200	4,065
Retail Trade	151	118	160	29	34	46	7,332	7,448	8,244
Post & Telecommunications	316	206	226	113	68	39	6,591	6,410	6,640
Wholesale Trade	30	29	21	3	11	12	4,209	3,208	2,558
Hotels & Restaurants	71	43	17	42	15	34	4,705	3,217	3,265
Computing	23	21	56	7	13	10	1,908	1,680	1,182
Motor Trade	15	26	17	6	5	14	1,384	1,512	1,027
Land Transport	54	45	30	23	20	10	2,379	2,500	2,406
Real Estate	*	49	141	44	6	8	4,565	1,921	2,533
Transport Support	25	15	24	3	*	9	5,058	6,364	6,460
All Market Services	827	567	768	315	183	211	51,145	44,189	43,760

Totals may not sum due to rounding

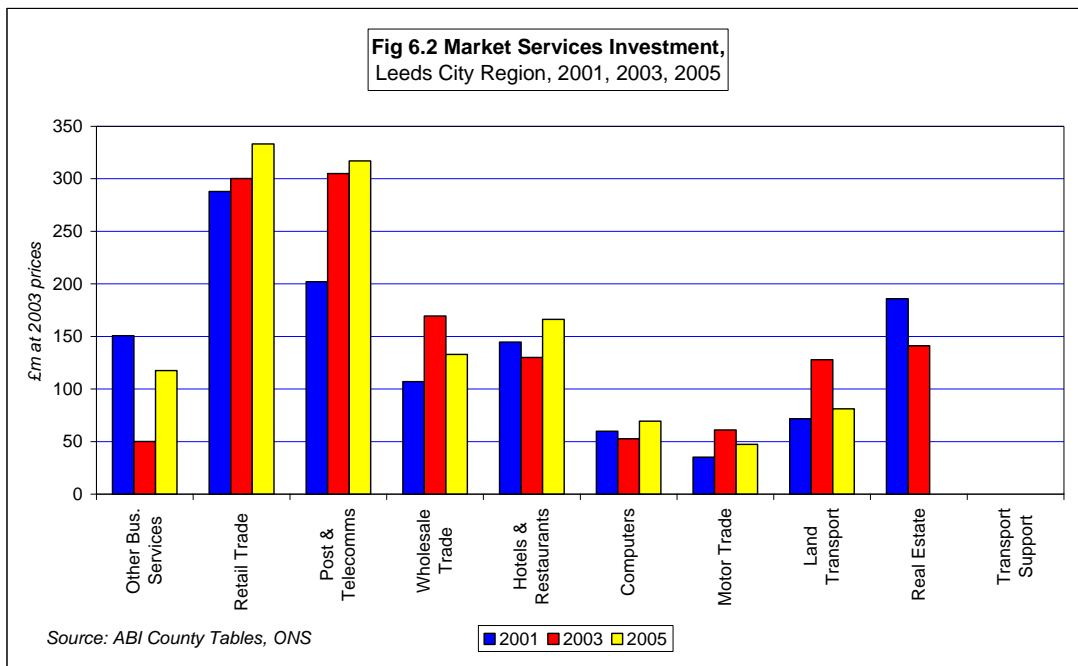
* Indicates that a value is confidential and has been suppressed

" The regional capital expenditure figures do not meet the ONS quality standards and, consequently, do not have National Statistics status."

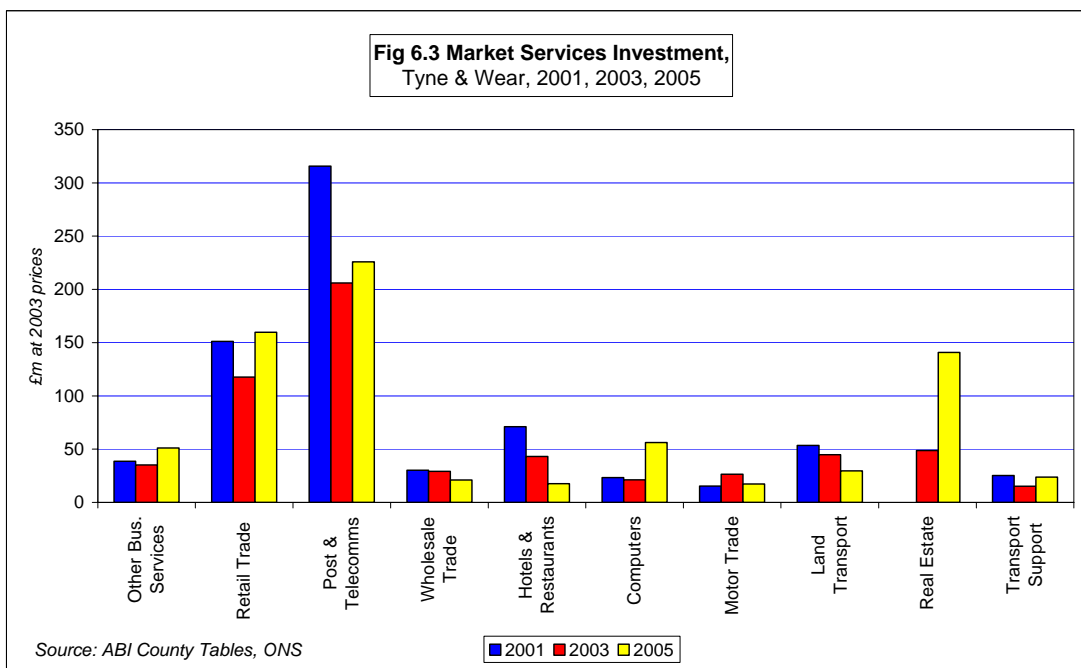
Appendix 6.4: Net Investment per Employee in Market Services, Tyne & Wear, with UK Comparison, 2005 (2003 prices)

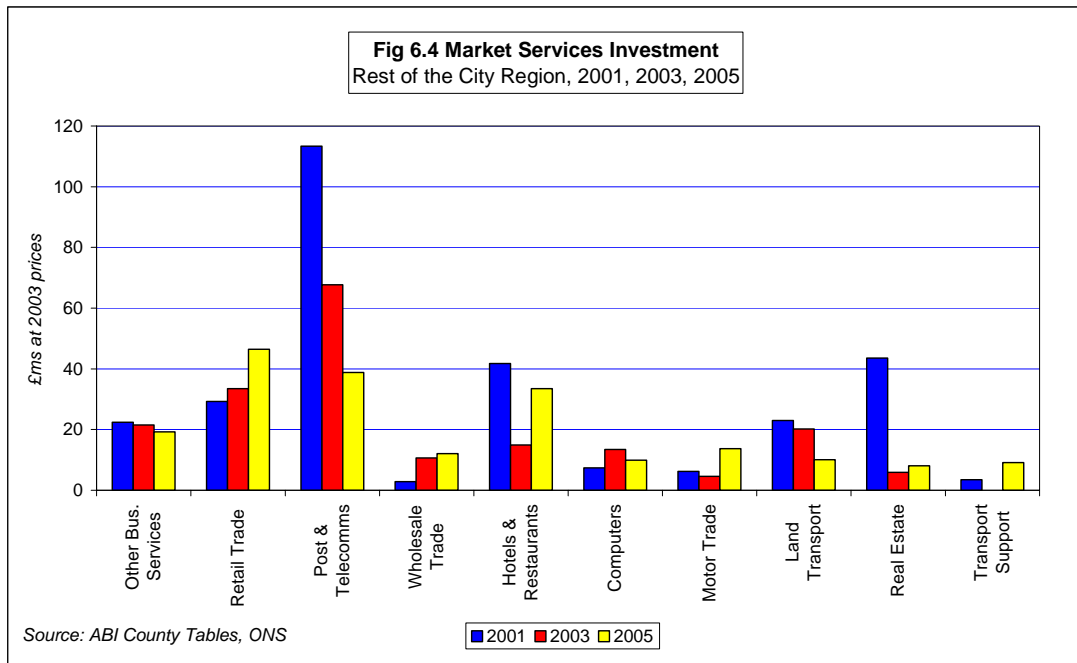
Service	Tyne & Wear	Rest of the City Region	UK	TW/UK	RoCR/UK
Other Business Services	902	1,541	1,190	0.8	1.3
Retail Trade	2,843	2,570	2,652	1.1	1.0
Post & Telecommunications	18,372	14,494	12,552	1.5	1.2
Wholesale Trade	1,480	2,484	2,111	0.7	1.2
Hotels & Restaurants	599	2,105	1,704	0.4	1.2
Computing	6,931	4,712	2,021	3.4	2.3
Motor Trade	1,981	3,541	1,635	1.2	2.2
Land Transport	3,507	2,560	4,142	0.8	0.6
Real Estate	18,728	3,697	5,087	3.7	0.7
Transport Support	4,091	6,782	15,529	0.3	0.4
All Market Services	3,621	3,077	3,296	1.1	0.9

Totals may not sum due to rounding * Indicates that a value is confidential and has been suppressed
 * The regional capital expenditure figures do not meet the ONS quality standards and, consequently, do not have National Statistics status.*



Note: Leeds CR figures for investment in Transport Support were suppressed by ONS.





Note: Finer scale for RoCR.

APPENDIX 6. CHAPTER 7: TIME SERIES 2001-2005 MARKET SERVICES ESTABLISHMENT SIZE

Appendix 7.1: Market Services in Tyne & Wear City Region: Establishment Size, 2001-2005

SIC	Service	Tyne & Wear City Region			UK		
		2001	2003	2005	2001	2003	2005
50	Motor, Sale & Repair	6.9	8.5	7.6	8.7	8.9	8.8
51	Wholesale	9.4	8.9	9.0	10.6	10.7	11.0
52	Retail (exc Motor)	9.2	10.3	10.5	14.5	15.4	15.4
55	Hotels and Restaurants	10.4	10.1	11.4	15.1	15.2	14.7
60	Land Transport	10.7	10.9	11.8	12.6	12.6	12.5
61	Water Transport	8.6	6.0	8.7	14.8	12.1	12.9
62	Air Transport	79.2	63.6	58.4	102.2	101.4	91.0
63	Transport Support, etc	13.1	14.2	15.8	22.2	22.6	24.5
64	Post and Telecommunications	41.9	34.3	38.6	35.2	30.9	33.2
70	Real Estate Activities	6.2	5.0	5.4	5.2	4.9	5.0
71	Renting Machinery/Equipment, etc	9.6	7.1	8.2	11.0	10.2	10.6
72	Computing and Related Activities	7.9	6.5	7.7	4.5	5.3	5.7
73	Research and Development	15.0	26.1	21.8	35.4	34.9	33.9
74	Other Business Activities	11.0	9.9	10.6	9.7	9.1	8.6
	Total Market Services	10.1	9.9	10.4	11.1	11.2	11.0

* Indicates that a value is confidential and has been suppressed