

Resilient local economies

Preparing for the recovery



Introduction

During times of economic turbulence, the ability to withstand external shocks becomes a hot commodity. The latest figures indicate that the economy is going through one of the most pronounced contractions experienced in the post-war period, with output falls in the UK now reaching a staggering 5.8%. In this context, it is far from surprising that the concept of economic resilience has become of increasing interest to policymakers.

But even though this concept is increasingly used and its relevance acknowledged, its exact meaning and, critically, the factors that help explain it are often not well understood. This new edition of Experian's Policy Insight is devoted to exploring this notion in greater depth. What exactly do we mean by economic resilience? How do we know whether an economy is 'shock-proof' or resilient? And, most importantly, why are certain economies more resilient than others?

Clearly, understanding the factors that enhance the capacity of a local economy to adapt to external shocks has clear policy implications. A focus on economic resilience can help identify those businesses that are central to future local economic development but may be at risk in the short-term given the tight credit conditions, or spot vulnerable communities that may need immediate support to prevent a long-lasting legacy of unemployment. In other words, an analysis of economic resilience can support the short-term policy response to the recession whilst at the same time helping to inform longer-term strategic planning to promote economic growth and prosperity in local areas.

Economic resilience: what does it mean?

1. Wolman, H., Hill, E., and Wial, H. (2008) 'Exploring regional economic resilience', Institute of Urban & Regional Economic Resilience Working Paper Series, University of California: Berkeley.

2. In fact, a study by the OECD at country level shows that those countries seen as more resilient also appear to be the ones that had made most progress on structural reform over the past two decades. Duval, R. and Vogel, L. (2008) 'Economic resilience to shocks: the role of structural policies', OECD Economic Studies No.44, OECD: Paris.

Put simply, economists refer to resilience as the capacity of the economy to withstand economic shocks¹. The less distressed an economy is by an external shock, or the faster it bounces back and returns to the point prior to the shock, the more resilient it is. It is worth noting that the focus of this concept is clearly on the short-term.

But another meaning often attached to economic resilience is more aligned to achieving long-term competitiveness. In the end, those economies that experience sustained growth are likely to possess those 'resilient' qualities that allow them to endure and adapt to difficult times².

Thus when understanding what makes an economy resilient, focusing on the flexibility and adaptive capacity of an economy – mainly of its business base and workforce – is a good starting point. In addition, given the close association between resilience and long-term competitiveness, some factors widely known to affect economic growth more generally – the skills of the local workforce or the cohesiveness of local communities for example – also deserve further consideration.

Using the conceptual framework developed by Experian to understand economic resilience, we have summarised these different factors into four key areas: business, people, place and community (figure 1). We will refer to each of these factors in more detail in the sections below.

Figure 1: Economic resilience diamond



Observed resilience: the numbers game

Measuring economic resilience is not without challenges. Ultimately how can we tell whether an economy has or will demonstrate resilience? As is often the case with socio-economic statistics, a series of judgements has to be made – from choosing a suitable measure of economic performance to identifying relevant and comparable time periods and benchmarks.

Building on the definitions discussed above, observed resilience can to some degree be measured using forecasts for how local economies are expected to perform – in terms of GVA or employment change for example – during both benign and volatile economic conditions. Indeed, despite its similarity and close relationship to economic growth, with resilience we are seeking to capture the ability of an economy to adjust to external disruptions rather than simply measuring its growth potential. As all recessions differ – in terms of their severity and duration, but also to some degree in terms of which industries, occupations and places will be most impacted – it isn't enough to simply look at past recessions as a guide to what will happen this time. A more structured approach that captures a range of risk factors and how these relate to economic conditions is required.

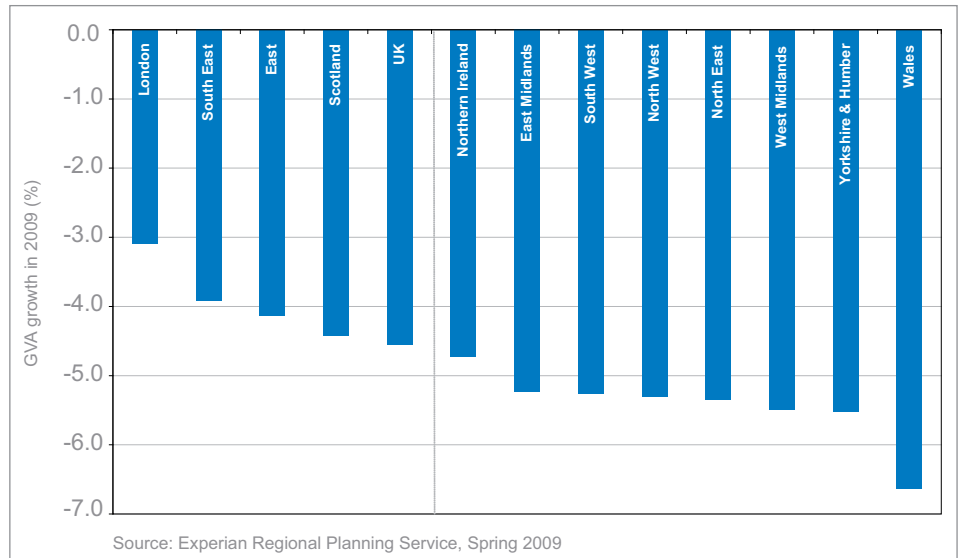
Our approach to measuring observed resilience during this recession considers a variety of metrics: the numbers of quarters of decline; the degree of contraction; how quickly a local economy will return to growth or the levels seen prior to the downturn; peak-to-trough calculations and so on. For the purposes of this paper we have chosen GVA growth as an illustrative measure of how severely local economies will be hit during the worst of the downturn and how quickly they will recover, drawing on Experian's Spring 2009 forecasts.

So as an example, which areas are set to be hardest hit and which will be more resilient during the whole of 2009 – the year during which we are set to witness the deepest output decline?³ An analysis of GVA growth rates in 2009 shows that local areas in the South, particularly in London, the South East and the East of England appear to be more resilient, with forecasts showing that they are likely to be less affected by the downturn during 2009 (figure 2). By contrast, certain parts of Wales and the Northern and Midland regions, particularly Yorkshire and Humber and West Midlands, appear to be most affected during 2009. This is generally consistent with the findings of a recent study by the Audit Commission on how councils are responding to the recession⁴.

3. For this article we chose to look at growth rates during 2009 only, but we could equally look at the whole period covered by the recession – that is all quarters of negative growth.

4. Audit Commission (2009) When it comes to the crunch...How councils are responding to the recession, Audit Commission: London.

Figure 2: The recession in 2009



Moreover, this trend is mirrored when we consider the areas set to recover more quickly, looking at GVA growth over the recovery period (in this case we picked a 3 year period covering 2010 to 2012). Again the South, including the East of England, South East, and London are expected to recover quickly, whereas some areas in Wales and the Northern regions are forecast to grow at a slower rate post-recession. Clearly, at this aggregate level this has important implications for the North-South divide – with the areas in the South not only growing more rapidly during the good times, but proving more resilient during the bad.

Yet the picture is more complex than this, with highly localised patterns of resilience and vulnerability. Indeed to some degree we must look to the UK's core cities to drive the recovery, but not all will bounce back quickly, with some – particularly London, Leeds, Manchester, Edinburgh and Cardiff – expected to recover more quickly than others.

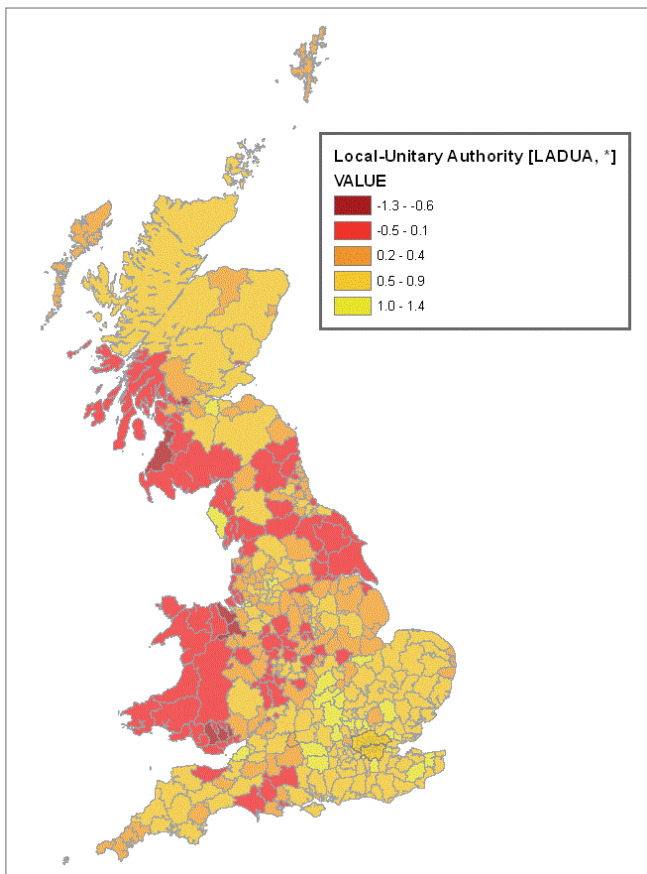


Figure 3: Resilient economies - the speed of recovery

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Why are some places more resilient than others?

While understanding whether an area is likely to prove resilient or not is useful, from a policy perspective the key lies in understanding the drivers behind these trends. In its truest sense resilience is more than just about how the economy in aggregate will perform – other questions, closely aligned to the priorities of local and regional policymakers, concern the impact on businesses, people and places: how badly will our businesses be hit? How many SMEs will we lose? How will our communities fare? How many of our residents will lose their jobs, or their homes? Which businesses or households are in greatest need of our help?

Below we address some of the key factors that need to be considered when trying to understand the economic resilience of local areas.

Businesses: sectoral mix and adaptive capacity

To a certain extent, the recession has made clear the need for new thinking on sectoral policy and a more balanced approach to growth. Local economies are inherently different and their sectoral strengths vary according to their specific mix of assets. Therefore, understanding sectoral trends – that is which sectors are likely to experience deeper contractions and which ones are expected to grow stronger out of the recession – is a first step towards understanding resilience. Tying these future trends to the concentration of employment for each of these sectors in the local economy can provide a good indication of its capacity to endure the downturn and how well placed it is to drive the upturn.

But resilience is not only about sectoral mix. There are general characteristics of the business base – chiefly its innovative and adaptive capacity – which are often associated with a dynamic economy⁵ and the ability to endure external shocks. Clearly, firms with these characteristics have the capacity to take advantage of new opportunities and transform their business models to changing conditions.

5. According to the Work Foundation, the contribution of knowledge-intensive firms to the economy has amounted to over 40% of GVA. See Work Foundation (2006) Defining the knowledge economy, Work Foundation: London.

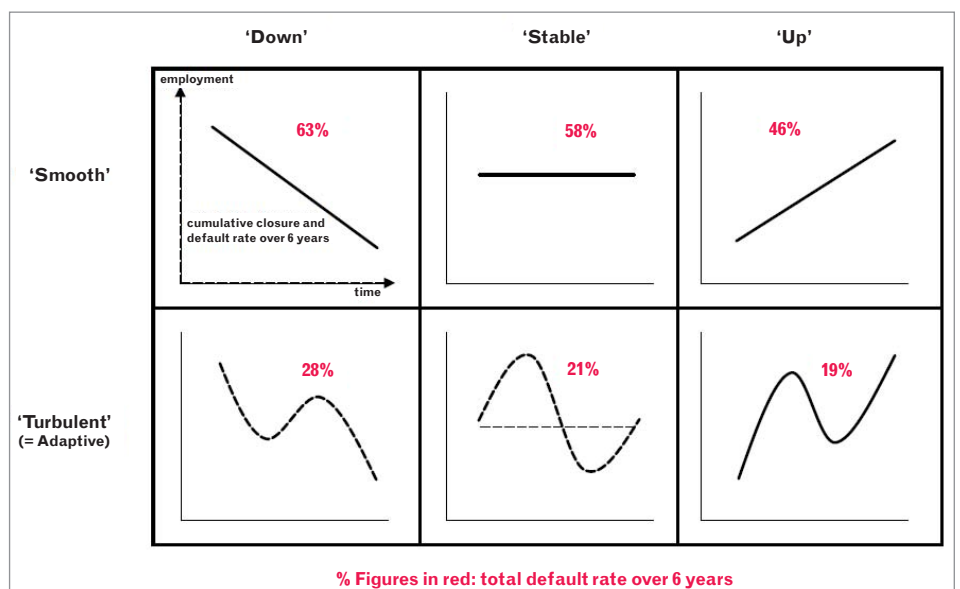


Figure 4: 'Adaptive' firms

Source: Experian's PH Group

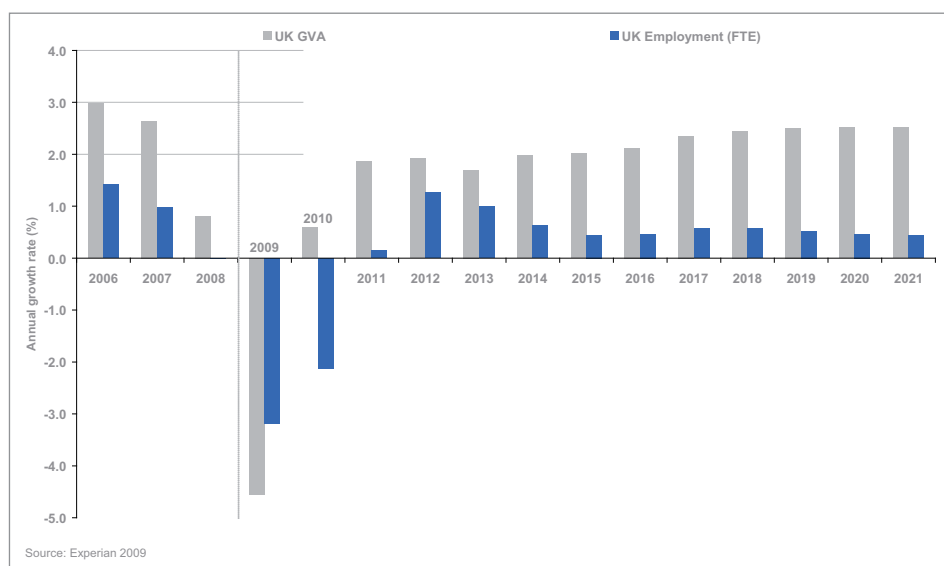
6. See NESTA (2009) Reshaping the UK economy. The role of public investment in financing growth. NESTA: London.

An analysis of ‘business’ resilience can not only help to explain and predict observed resilience of a local economy, but can also support the strategic targeting of firms most in need of support, particularly around access to finance. The latter is a key barrier for smaller productive businesses, especially in the current context of dried-up credit and a hard hit venture capital sector⁶. It can also help identify firms with the potential to break into new export markets – again an area where a solid evidence base can help inform government support that could be critical to SME growth.

People: tackling short-term job losses

In addition to business factors, people’s skills and employment prospects are central to the concept of economic resilience. Employment effects often lag economic activity and high levels of long-term unemployment are a common legacy of recessions. Whereas business activity is expected to bounce back relatively quickly, employment is expected to take longer to return to pre-recession levels (figure 6). This implies that tackling recent job losses, through for example training and up-skilling workers to match employers’ future skills needs, is critical to preventing today’s claimants from becoming tomorrow’s long-term unemployed.

Figure 5: Employment effects lag business activity

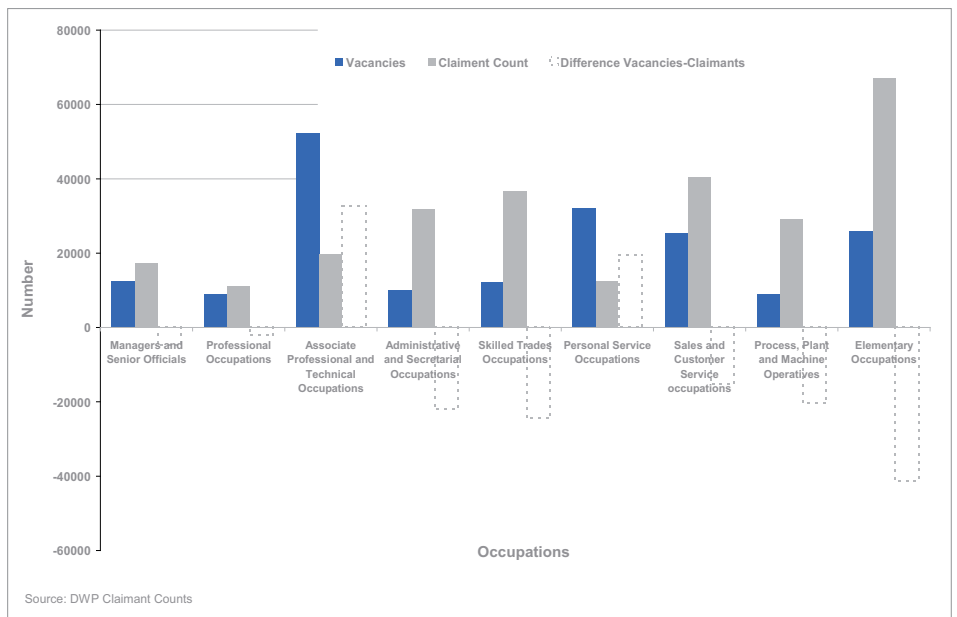


A flexible workforce that is able to adjust to changing conditions is a central characteristic of resilient economies. Clearly, adaptive capacity and flexibility is inextricably linked to the skills of the workforce and many argue that qualifications equivalent to five good GCSEs are a minimum requirement for operating successfully in today’s labour market⁷. Thus, a skilled workforce is a key contributor to economic resilience.

7. HMT (2006) Leith Review of Skills, HMT: London.

‘People’ factors linked to economic resilience not only include the supply side of skills, but also how this matches demand – that is, the specific skills required by employers. Figure 6 below shows live vacancies and claimant onflows by occupation in April 2009 for the UK and suggests that many who used to work in elementary occupations, skilled trades, and administrative positions may find it harder to find new job opportunities that match their skills. This reinforces the point made above that a relatively skilled workforce will have more resources to cope with changing economic conditions, contributing to the resilience of the local economy. Indeed, while each recession has impacted different occupations in different ways – in the 1980s Northern industrial workers and miners were harder hit; in the 1990s Southern construction and financial services workers – high transferable skills add flexibility in the face of any recession, so the people who suffer in the longer term tend to be the same (the low skilled, with poor qualifications and employment history).

Figure 6: Skills mismatches



8. Mosaic UK is the latest version of Experian's award-winning Mosaic classification that covers the whole of the UK. Mosaic classifies all consumers in the United Kingdom into 61 types, aggregated into 11 groups. Using over 400 data variables and updated annually, it paints a rich picture of UK consumers in terms of demographics, socio-economics, lifestyles, culture and behaviour. For more information, see: <http://strategies.experian.co.uk/Products/Demographic%20Classifications/Mosaic%20UK%202009.aspx>

9. For more information on this report, see <http://www.lgyh.gov.uk/dnlds/exchange%20-%20June%2009.pdf> [accessed August 24th 2009]

10. These five Mosaic types include 'Small Enterprise' (well-qualified minority groups, many from Asia, living in semi-detached suburban areas); 'Low Horizons' (tenants reliant on city councils for housing and transport, where few neighbours have bought their homes); 'High-Density Urban' (tenants of public housing in inner city areas, with a high proportion belonging to minority communities); 'Low-Paid Manufacturing' (larger families, many of South Asian origin, in high-density terraces); and, 'Families on Benefits' (disadvantaged families with children on very low incomes, typically living in low rise council estates).

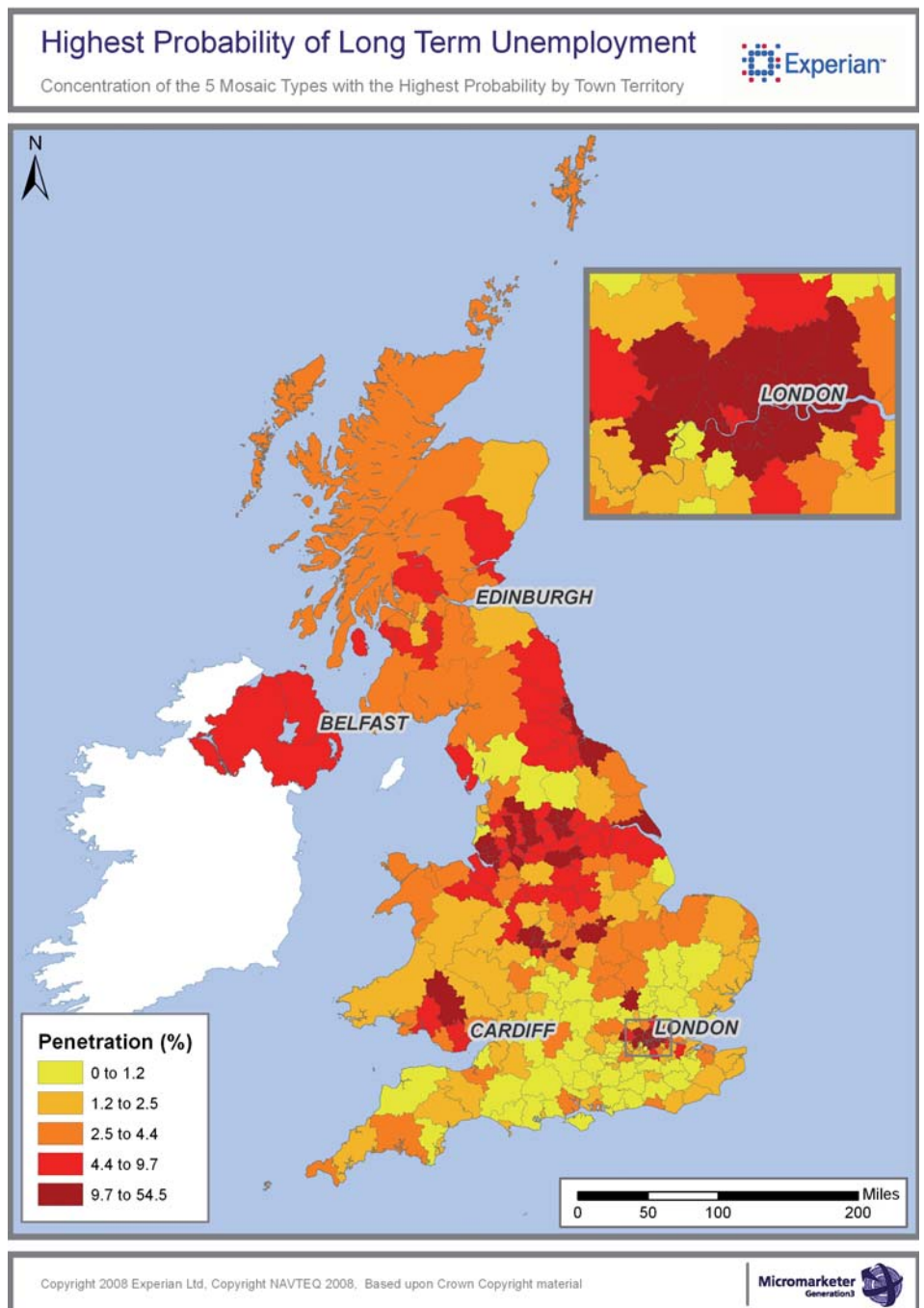
Addressing recent job losses is a short-term priority for many local and regional economies. An analysis of economic resilience can help to regularly assess employers' needs as well as whether there are any gaps between employers' demands and the skills offer of the local workforce. This evidence can help shape training and re-skilling to ensure businesses and individuals have the skills they need for the upturn, whilst at the same time enhancing the economy's overall adaptive capacity.

The long term: community and place factors

There are also a number of long-term factors that can affect economic resilience. Recent research by Experian linking its economic forecasts and Mosaic UK data⁸ to indicators used in Local Authority Agreements for Local Government Yorkshire and Humber⁹ shows that the deepening recession is having knock-on effects on other aspects of community life. The research found that these knock-on effects are fed directly through raised unemployment, and indirectly through, for example, raised levels of acquisitive crime and those not in education, employment or training (NEET).

Using a similar methodology, the map below shows the areas that concentrate five Mosaic types¹⁰ that we consider of greatest risk of long-term unemployment as a result of the recession. What this shows is that some communities will be more resilient than others to the economic downturn, and often the location of those more vulnerable groups is a) highly localised and b) concentrated in those places with a long history of deprivation.

Figure 7:
Risk of long-term unemployment



All of the above factors – people, business and community – come together in a ‘place’. ‘Place’, in turn influences these factors through the quality of its physical infrastructure and wider environment. Generally, businesses will choose to invest in those places where they can find a suitable office space, a good offer of amenities, connectivity to their key markets and so on. In the same vein, highly qualified workers would be more prone to locate in places that have an attractive housing offer, schooling, and amenities – including good quality leisure and retail facilities. In addition, green space and an infrastructure that complies with high environmental standards is becoming increasingly relevant to quality of place.

Investing in regeneration projects during a recession can help boost short-term demand through job creation at the same time as contributing to resilience through improving the quality of place¹¹. With tighter regeneration budgets, however, reviewing regeneration projects and prioritising those interventions that can deliver maximum impact and wider economic benefits with fewer resources has become one of the main challenges for policymakers in the short-term.

11. See for example, Duval, R. and Vogel, L. (2008) ‘Economic resilience to shocks: the role of structural policies’, OECD Economic Studies No.44, OECD: Paris.

Economic resilience: an effective response to the downturn

While many of the levers to deal with cyclical shocks lie with Whitehall, the downturn will impact different businesses, people, communities and places in different ways. A strong, coordinated local policy response will be required to help mitigate the impact of the downturn and foster the right conditions for recovery and growth.

¹² Audit Commission (2009) When it comes to the crunch...How councils are responding to the recession Audit Commission: London.

Indeed, the Audit Commission's recently released report¹² highlighted that much more can be done at the local level to provide a coherent strategy that involves a coordinated approach amongst different key stakeholders – local and regional government, businesses and the community – and offers an effective response to the recession. One of the major challenges facing local areas today will be to tackle the short-term pressures of unemployment and business risk, while at the same time keeping an eye on the long-term strategy and wider vision for the local area.

This is what a focus on economic resilience can deliver. It can help shape a targeted short-term response to the downturn by identifying vulnerable households and key businesses at risk, while at the same time highlighting those areas that require further attention in the long-term – from capital investment in infrastructure to developing the skills that will be needed by employers in the future.

Regional and local government has a key role to play in paving the way to recovery. A timely and effective response to the short-term pressures of the recession, based on a solid evidence base, will be critical to preventing the immediate effects of the recession from becoming long-lasting.

How can Experian help you understand local resilience?

The downturn has made clear the need for resilient regional and local economies. Identifying those factors that contribute to a resilient economy, analysing to what extent these factors are present in regions' major towns and cities, and ensuring that these are fully reflected in future regional and local economic strategies will be a critical challenge of the next few years.

To support our public sector partners respond to this challenge, Experian has launched Economic Resilience Assessments for local areas and sub-regions. These assessments, developed in partnership with local authorities, bring together our unique data and insight to help inform the short-term policy response to the recession.

All data quoted in this briefing note has been provided by Experian's Regional Planning Service (RPS)

The RPS provides comprehensive analysis and forecasts of activity, employment, incomes and spending at the UK, regional and sub-regional levels.

Building on our in-house economic modelling and policy capabilities developed over more than a decade, Experian can provide bespoke economic intelligence reports, examining how resilient local economies are likely to be in the face of these **unprecedented conditions**. More specifically we provide:

- Our view on the current macroeconomic context
- The key factors driving change
- An overview of the recent performance of your local economy
- An assessment of the economic resilience of your local economy
- Guidance on the businesses and communities most in need of support
- The long-term outlook and key challenges and opportunities faced by your economy

These economic intelligence reports can be tailored to meet your exact requirements and hence can help answer the pressing questions that will **aid your planning and decision making**.

For further information on how Experian can help you [assess local resilience](#), [monitor macro economic developments](#), or [target support at businesses and individuals most in need of help](#), please contact:

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