

Understanding economic performance

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Discussions on the economy often focus on Wales' performance relative to the UK in terms of two main statistics: GVA and GDHI. There is no escape from these acronyms when looking at the economy but what can they really tell us about how Wales is performing?

GVA – an imperfect indicator?

Wales has the lowest GVA per head of all the devolved countries and English regions, standing at 74.3 per cent of the UK average. This is nothing new - it has been the lowest in the UK for over a decade. Areas within Wales also sit at the bottom of the GVA per head league tables. The areas of West Wales and the Valleys (62.6 per cent), and the Isle of Anglesey (55.2 per cent) both sit at the bottom of the table for their respective geographical categories within the UK.

There has been a lower rate of GVA per head growth in Wales compared to the UK in almost every year since 1995. The gap was particularly wide in the late 1990s, which explains the high rate of relative decline in Welsh GVA per head over that period.

Recession

The recent recession has undoubtedly hit Wales hard. Nevertheless, there are some positives that can be drawn from the latest GVA figures. For instance, the rate of decline in GVA per head between 2008 and 2009 was slightly smaller in Wales as compared to the UK, and was the fifth smallest rate of decline out of the twelve devolved countries and English regions.

There are, however, a number of reasons why GVA per head could be seen as an imperfect indicator of economic performance. For example, it measures the economic output produced in an area and divides it by the number of residents in that area. Therefore, estimates of

GVA per head will be low in areas with significant levels of outward commuting and high resident populations and vice versa.

Also, as it measures the economic output produced in an area, per head of population, comparisons between areas can be unduly influenced by demographic differences, such as in the proportion of children or people of retirement age (who generally produce little economic output).

Given these concerns GDHI is often presented as an alternative measure of economic performance.

Regional **Gross Value Added (GVA)** is an income-based measure of the economic output of an area, mainly composed of the wages and profits earned as a result of production.

Gross Disposable Household Income (GDHI) is an estimate of what a household has to spend or save after tax and housing costs have been deducted from their earnings and benefits payments.

GDHI – an alternative measure of economic performance?

GDHI per head in Wales is the third lowest of the twelve English regions and devolved countries currently standing at 87.9 per cent of the UK average.

Over the last year GDHI per head in Wales increased by 2.6 per cent between 2008 and

2009, compared to a 2.5 per cent increase for the UK as a whole.

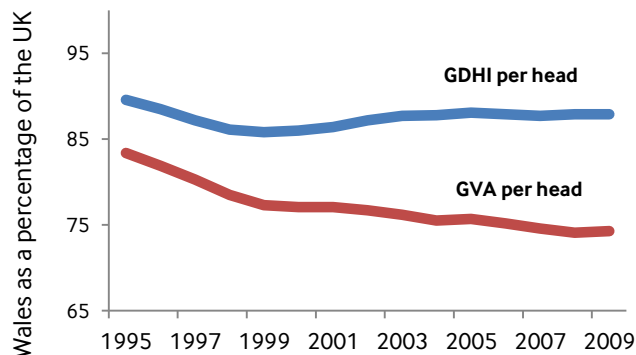
Wales saw the fourth largest percentage increase in GDHI per head out of the devolved countries and English regions between 1999 and 2009. As shown in the chart, GDHI per head in Wales has improved relative to the UK average over the last decade while GVA per head has continued on a downward trend.

Whilst GDHI shows Wales in a more positive light than GVA when comparing it to other regions of the UK we are not technically replacing like for like. Given the inclusion of benefits payments within the calculation of GDHI it is perhaps a better measure of living standards than GVA, but less satisfactory as a measure of economic performance.

GVA and GDHI: What do they show at the local level?

Whilst at an all-Wales level the headline-grabbing GVA and GDHI statistics can be persuasive, they don't by any means tell the whole story of how the Welsh economy is performing, particularly at the local level.

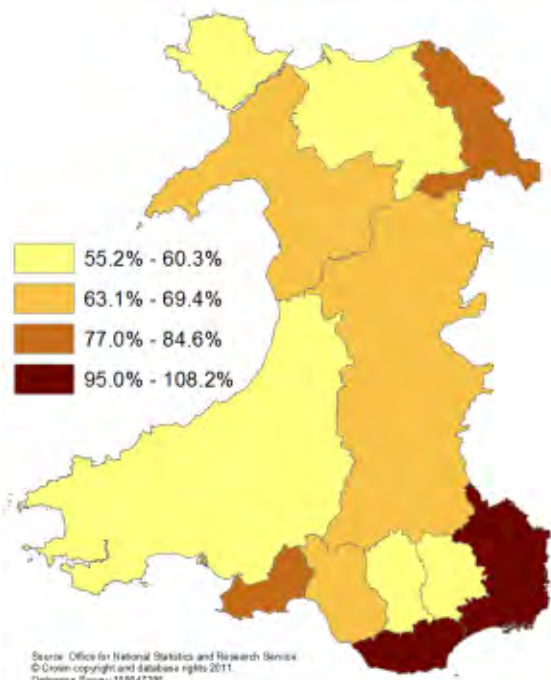
Relative to the UK average, GVA per head in Wales broadly continues to decline, while GDHI per head has improved slightly over the last decade



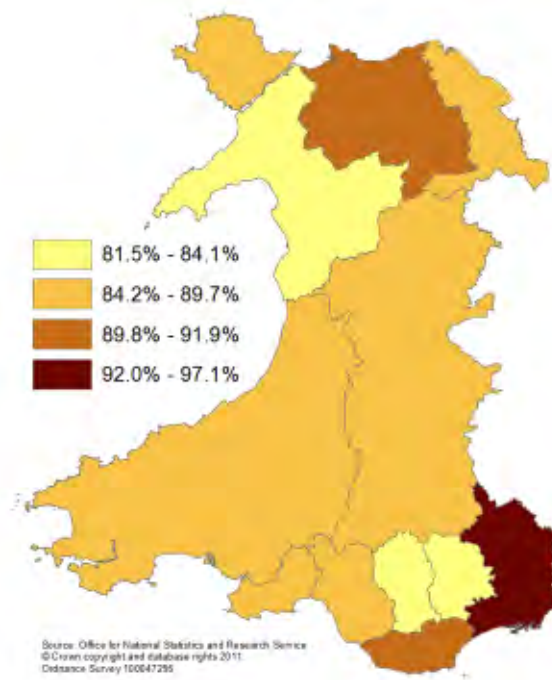
Source: ONS

The GVA and GDHI figures can paint a mixed and sometimes conflicting picture in terms of the performance of the local economies within Wales. In order to try and really understand what is going on, and to monitor how the economy is faring in this uncertain post-recession period, we would need to look at a wider range of economic indicators – for example employment, unemployment and inactivity rates.

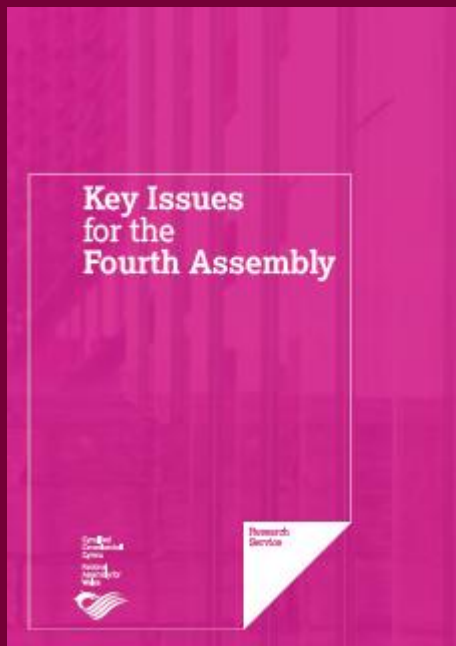
GVA per head as a percentage of the UK average



GDHI per head as a percentage of the UK average



Article taken from Research Service publication



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This document has been specially prepared for Assembly Members by the Research Service. It sets out some of the key issues likely to matter to Members during the Fourth Assembly.

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