

# 4 – The Northern Powerhouse: past performance and future potential

## Key points

- Average income levels in the Northern regions of England have lagged behind the UK average for decades, in part reflecting relatively low average levels of skills and R&D spending in these areas.
- But employment growth has been stronger in the North West in the past two years and in some recent years inward investment levels have been relatively high.
- Uncertainties relating to Brexit could dampen growth in all UK regions over the next few years, but the EU vote has also focused renewed attention on the need for increased investment in the Northern Powerhouse to boost infrastructure, skills and innovation.
- Given this additional investment, we think the North of England could resume positive employment growth after the initial Brexit shock fades, with the potential for around 192,000 extra jobs by 2025 relative to 2015 levels.

## Introduction

Where did the concept of the Northern Powerhouse come from? There has been a long held view that a more even distribution of prosperity across the UK would be highly desirable in its own right and would also promote improved overall UK macroeconomic performance. If some demand was redistributed from the South East to the North this would ensure that full capacity in the UK economy was compatible with a higher overall level of employment<sup>1</sup>. The EU referendum result has also reinforced the need to address regional economic disparities.

There has also been a perception that in some other European economies so-called “second tier” cities<sup>2</sup> contribute much more proportionally to the performance of their national economies than is the case for, say, Manchester, Leeds, Birmingham and Glasgow relative to London. Devolution to Scotland, Wales and Northern Ireland has prompted the question whether the English regions might wish to change their relationship with UK central government. Finally, the government has stressed the Northern Powerhouse's significance as a key vehicle for achieving objectives such as boosting national productivity<sup>3</sup>.

To address these issues this article first looks at the comparative past performance of the Northern regions (Section 4.1) and then discusses the drivers of these relative performance trends (Section 4.2). We then present some projections of potential employment growth in the North of England, taking into account the possible impact of Brexit (Section 4.3) before turning to policy implications (Section 4.4). Section 4.5 concludes.

<sup>1</sup> The economist Nicholas Kaldor made this point in the 1960s, which then formed the basis for some of the policies of the 1964-70 Labour governments such as the Regional Employment Premium and the Selective Employment Tax.

<sup>2</sup> Such as Munich, Milan or Barcelona. See *Decentralisation Decade: A New Deal for English Local Governance*, IPPR, 2014.

<sup>3</sup> The government's productivity plan (*Fixing the Foundation: Creating a More Prosperous Nation*, HM Treasury, 2015) emphasises the need for greater regional balance. See also, Financial Times 4 July 2016, “Northern Powerhouse plans must continue says Jim O'Neill”.

## 4.1 Comparative performance in broad terms

### Scale of the Northern Powerhouse

There is no official definition of the ‘Northern Powerhouse’, but for the purposes of this article we adopt a broad definition of this that comprises all three regions in the North of England<sup>4</sup>, i.e. the North East, North West and Yorkshire and the Humber. This combined area represents nearly a fifth of total UK economic output or gross value added (GVA) in 2014. If the Northern Powerhouse on this definition was an independent country, it would be the tenth largest economy in Europe<sup>5</sup>.

The total output in the Northern Powerhouse is about five-sixths of that in London; just over £300bn in 2014 compared to about £360bn. London does, however, produce that level of output despite having a considerably smaller resident population (or workforce) so the level of productivity is markedly lower in the North of England.

### Comparative output per head in the Northern Powerhouse

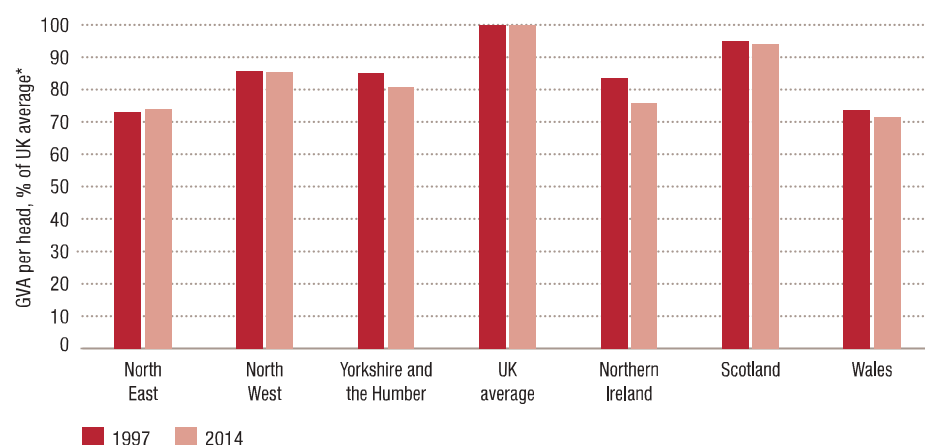
Figure 4.1 and Table 4.1 illustrates trends in the average level of living standards in the Northern regions relative to the UK average and the devolved nations (with 2014 being the latest available year of data at regional level).

In terms of GVA per head there are reasonably big performance variations between the three Northern regions although each lags behind the UK average by a wide margin (due in large part to London significantly raising the UK average). Average income per head in the North East is now similar to that in Northern Ireland, though still slightly higher than in Wales. In comparative terms, Yorkshire and the Humber slipped by just over 4 percentage points comparing 2014 with 1997.

GVA per head in Scotland remains considerably higher than in each of the three Northern regions in England.

GVA per head is just one indicator of economic performance and all such comparisons are subject to a number of caveats. For example, the data for 2014 may be revised in due course. Additionally, GVA does not make allowance for the many other factors impacting on quality of life<sup>6</sup>.

Figure 4.1 – Comparative level of living standards (GVA per head), % of the UK average



Source: ONS 2015, “Regional gross value added (income approach) 1997 to 2014”

\* Excludes GVA which could not be attributed to any individual region or output attributable to the Continental Shelf (principally, oil and gas related)

<sup>4</sup> We use the standard ‘NUTS1’ definition of these regional areas as in UK and EU official statistics.

<sup>5</sup> Department for Communities and Local Government 12 April 2016, “Gunning for growth: Film promotes Northern Powerhouse to the world”, [Press release](#).

<sup>6</sup> Hence the importance of broader measures such as the PwC-Demos [Good Growth for Cities index](#), which can be accessed here: <http://www.pwc.co.uk/industries/government-public-sector/good-growth.html>

**Table 4.1 – The Northern Powerhouse’s performance compared to the other main UK regions**

	North East	North West	Yorkshire & Humberside	East Midlands	West Midlands	East
Indicators of performance outcomes						
GVA per head 2014	11 <sup>th</sup>	6 <sup>th</sup>	9 <sup>th</sup>	7 <sup>th</sup>	8 <sup>th</sup>	4 <sup>th</sup>
GVA growth 2014	Joint 7 <sup>th</sup>	9 <sup>th</sup>	Joint 7 <sup>th</sup>	Joint 4 <sup>th</sup>	10 <sup>th</sup>	2 <sup>nd</sup>
Employment growth 2 years to Feb-Apr 2016	Joint 8 <sup>th</sup>	2 <sup>nd</sup>	12 <sup>th</sup>	Joint 8 <sup>th</sup>	Joint 5 <sup>th</sup>	4 <sup>th</sup>

	London	South East	South West	Wales	Scotland	Northern Ireland
Indicators of performance outcomes						
GVA per head 2014	1 <sup>st</sup>	2 <sup>nd</sup>	5 <sup>th</sup>	12 <sup>th</sup>	3 <sup>rd</sup>	10 <sup>th</sup>
GVA growth 2014	1 <sup>st</sup>	6 <sup>th</sup>	Joint 4 <sup>th</sup>	12 <sup>th</sup>	3 <sup>rd</sup>	11 <sup>th</sup>
Employment growth 2 years to Feb-Apr 2016	1 <sup>st</sup>	Joint 5 <sup>th</sup>	Joint 8 <sup>th</sup>	3 <sup>rd</sup>	Joint 5 <sup>th</sup>	11 <sup>th</sup>

Source: ONS

Table 4.1 considers the performance of the three regions within the Northern Powerhouse against the nine other main UK regions using three indicators; GVA per head in 2014, economic growth in 2014 and employment growth during 2013-15. A “traffic light” system is used: regions amongst the top three “best” positions in the UK are marked in green, those in the bottom three positions in red, and the remainder in amber.

The dashboard presents a mixed picture in terms of comparative performance in recent years. The North West and Yorkshire and the Humber have middling performances in terms of GVA per head. The North East, however, had the second lowest level of all 12 UK regions. In terms of GVA growth, the North East and Yorkshire and the Humber were just below the UK average whereas the North West was placed ninth. In contrast, the North West had some of the highest levels of employment growth, but Yorkshire and the Humber was lowest in this regard.

## 4.2 Explaining the comparative performance of the Northern Powerhouse

Table 4.2 summarises the comparative position of the three regions in terms of some of the key drivers of economic performance. The growth in the total number of businesses in each region is used as a proxy for entrepreneurship. R&D spend as a % of GVA is used to represent the extent of innovation.

The percentage of the labour force without a formal qualification is used as a measure of skills and education (i.e. the region with the highest percentage with no such qualification is ranked twelfth). The level of public spending per head is used as a measure of the vulnerability of each region to austerity measures (higher spending indicates greater vulnerability).

Table 4.2 – Northern Powerhouse's comparative position in terms of drivers of economic performance

	North East	North West	Yorkshire & Humberside	East Midlands	West Midlands	East
Indicators of drivers of performance						
Number of businesses, growth rate 2014	Joint 2 <sup>nd</sup>	Joint 4 <sup>th</sup>	Joint 4 <sup>th</sup>	Joint 2 <sup>nd</sup>	9 <sup>th</sup>	7 <sup>th</sup>
Total R&D as % of regional GVA 2013	10 <sup>th</sup>	8 <sup>th</sup>	11 <sup>th</sup>	3 <sup>rd</sup>	5 <sup>th</sup>	1 <sup>st</sup>
% of labour force no qualifications 2013*	9 <sup>th</sup>	10 <sup>th</sup>	7 <sup>th</sup>	Joint 5 <sup>th</sup>	11 <sup>th</sup>	4 <sup>th</sup>
Public spending per head 2013-14*	8 <sup>th</sup>	7 <sup>th</sup>	5 <sup>th</sup>	3 <sup>rd</sup>	6 <sup>th</sup>	2 <sup>nd</sup>

	London	South East	South West	Wales	Scotland	Northern Ireland
Indicators of drivers of performance						
Number of businesses, growth rate 2014	1 <sup>st</sup>	Joint 4 <sup>th</sup>	11 <sup>th</sup>	10 <sup>th</sup>	8 <sup>th</sup>	12 <sup>th</sup>
Total R&D as % of regional GVA 2013	12 <sup>th</sup>	2 <sup>nd</sup>	4 <sup>th</sup>	9 <sup>th</sup>	7 <sup>th</sup>	6 <sup>th</sup>
% of labour force no qualifications 2013*	3 <sup>rd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	8 <sup>th</sup>	Joint 5 <sup>th</sup>	12 <sup>th</sup>
Public spending per head 2013-14*	9 <sup>th</sup>	1 <sup>st</sup>	4 <sup>th</sup>	10 <sup>th</sup>	11 <sup>th</sup>	12 <sup>th</sup>

Source: Source: ONS and HM Treasury (HMT)

Note\*: Lowest level ranked top, i.e. a low % without qualification and a low level of public spending per capita were judged beneficial to growth potential

### Definitions and sources:

The ranking for each of the 12 regions in terms of various indicators is once again summarised by a traffic light system using the same colour coding as Table 4.2.

The implied comparative performance of the Northern Powerhouse is mixed. The North East was ranked joint second in terms of the growth rate for the number of businesses. Less favourably, the North West had the tenth lowest performance in terms of the skills measure. All three regions have below average rates of spend on R&D<sup>7</sup>. One issue, relating to both relative skills and R&D spending levels, is that notwithstanding the presence of many colleges and universities, the Northern Powerhouse ‘exports’ considerable numbers of students and young graduates to London and the South. The North East had the eighth highest level of public spending per head.

Box 4.1 considers how the Northern Powerhouse stands in terms of one particularly important indicator - the rate of inward investment into the region.

### Box 4.1 – How the Northern Powerhouse compares in terms of the rate of inward investment

This matters because of the potential benefits such as a boost to output and employment which is relatively quick working as well as benefits to productivity

through access to external origin R&D and management practices. Table 4.3 considers the rate of foreign direct investment (FDI) into the Northern Powerhouse.

### Table 4.3 – Distribution of jobs (new and safeguarded) related to FDI by Northern Powerhouse region

	Jobs in 2005/6 as % of UK total	Jobs in 2011/12 as % of UK total	Regional GVA as % of UK total, 2011*
North East	8.8	11.3	3.1
North West	10.4	16.3	9.2
Yorkshire and the Humber	6.9	3.9	6.8

Source: UKTI.

Note\*: Excluding ex-regio and Continental Shelf

English regions outside of the ‘greater South East’ (i.e. regions other than South East, London and East of England) succeeded in attracting a relatively high share of the total employment related to FDI, that is, higher than their share of UK output

(GVA) in both 2005/6 and 2011/12. This was true for both North East and North West, although not Yorkshire and the Humber in 2011/12. Unfortunately more recent inward investment job creation data is not split down by region.

<sup>7</sup> A position confirmed by a study of individual cities in the North; Centre for Cities 2014, *Cities Outlook*.

### 4.3 Future employment growth potential of the Northern Powerhouse

An article in the previous edition of UK Economic Outlook considered sectoral employment growth prospects for the UK as a whole over the period to 2025<sup>8</sup>.

In this section, we adopt a similar approach to projecting potential employment growth in the Northern Powerhouse regions to 2025, but allowing also for the impact of Brexit.

We also considered the potential boost to jobs if the relationship between the Northern Powerhouse's employment growth rate and the UK average improves such that it becomes the same as that for South East England during 1997-2015<sup>10</sup>. W

llenging but achievable if increased investment can be made in key enablers of growth such as transport infrastructure, skills and innovation, as envisaged in current government plans for the Northern Powerhouse.

Table 4.4 summarises the results of this exercise, which are further illustrated in Figure 4.2.

**Table 4.4 – Historical and projected employment growth by sector in Northern Powerhouse region for 1997-2025**

	Jobs '000s Northern Powerhouse 1997	Jobs '000s Northern Powerhouse 2015	Growth rate, % per annum, Northern Powerhouse 1997-2015	Projected growth rates, % per annum, Northern Powerhouse 2015-2025	Jobs '000s Northern Powerhouse projected in 2025
Agriculture, fishing and forestry	81	55	-2.6	-2.6	42
Construction	427	445	0.2	1.0	491
Manufacturing	1184	752	-2.5	-3.2	546
Energy and water	80	82	0.1	1.4	94
Distribution, hotels and restaurants	1560	1607	0.2	0.0	1607
Transport & communications	434	531	1.1	1.0	589
Financial services	196	200	0.1	-0.1	198
Business services	785	1211	2.4	1.4	1389
Public admin etc.	366	343	-0.4	-1.2	304
Education and health	1194	1731	2.1	0.8	1868
Other services	309	382	1.2	0.6	405
<b>Total economy</b>	<b>6614</b>	<b>7340</b>	<b>0.6</b>	<b>0.3</b>	<b>7532</b>

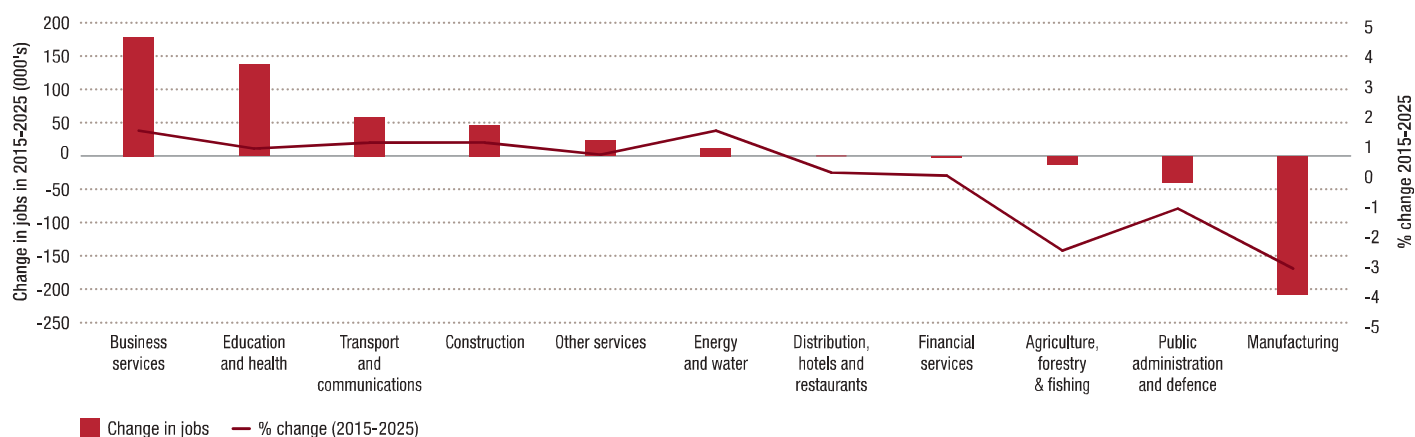
Source: ONS data for 1997-2015, PwC projections for 2025

<sup>8</sup> "Which industries will drive future jobs growth in the UK?" UK Economic Outlook, PwC, March 2016 which is available here: <http://www.pwc.co.uk/assets/pdf/ukeyo/ukeyo-sectoral-employment-march-2016.pdf>

<sup>9</sup> Specifically we assume that total UK employment will be around 450,000 less in 2025 than previously estimated due to the impact of Brexit. This is based on the 'Free Trade Agreement' (FTA) scenario in our earlier detailed analysis for the CBI **Leaving the EU: Implications for the UK Economy**, PwC, March 2016, which can be accessed here: <http://www.pwc.co.uk/services/economics-policy/insights/implications-of-an-eu-exit-for-the-uk-economy.html>

<sup>10</sup> One exception was manufacturing where the 1997-2015 relationship of the regional growth rate to the UK average was less favourable in the South East than in the Northern Powerhouse. In this case we projected forward the 1997-2015 relationship for the Northern Powerhouse compared to the UK average into 2015-2025.

**Figure 4.2 – Projected employment growth by sector in Northern Powerhouse region (2015 - 2025)**



Source: PwC projections based on historical ONS data

Looking first at historic trends, we can see that during 1997-2015 UK total employment grew by an average of around 0.9% per annum, while the average growth rate in the Northern Powerhouse was only around 0.6% per annum. But there were significant variations by sector<sup>11</sup>:

- Employment growth in the Northern Powerhouse exceeded the UK average in health and other services.
- In manufacturing; financial services; professional, scientific and technical; real estate; and education, historical job growth rates in the Northern Powerhouse and the UK were almost the same.

- But historical growth rates in the Northern Powerhouse lagged behind the UK average in electricity and other energy; water supply; construction; retail; transport; accommodation and food services; information and communications; admin and support services and arts, entertainment and recreation.
- In public administration the scale of decline in employment was broadly similar but the decline in agriculture, fisheries and forestry and mining and quarrying in the Northern Powerhouse was greater.

If we project forward on the basis of the assumptions described above, the implied total additional employment in the Northern Powerhouse regions in 2025 relative to 2015 would be around 192,000. This would represent a cumulative increase of around 2.6%, equivalent to an annual jobs growth rate of around 0.3%.

Of course, there are many uncertainties around these projections, not least as regards the impact of Brexit. Actual jobs growth could therefore be either higher or lower than these projections, but they are illustrative of the potential of the Northern Powerhouse region if it can ride out the short term turbulence caused by Brexit and, crucially, if the required additional investment is put into the region<sup>12</sup>.

11 Our analysis was based on the 20 sectors into which the Labour Force Survey data was disaggregated and then that data was aggregated up to the 11 sectors shown in Table 4.4.  
 12 One major reason why the projected employment growth for the Northern Powerhouse in 2015-2025 is still relatively modest even if each sector mimics the performance of its counterpart in the South East is the different structure of employment in the North. Compared to the South East there is an under-representation of some key sectors - notably business services - which are likely to see high jobs growth. For more discussion of this point see "Getting the balance right in the UK regions", PwC UK Economic Outlook, November 2014

## 4.4 Policy considerations

### Devolution of powers

As one of the leaders of decentralisation in England, the Greater Manchester Combined Authority will soon have (or already has in some of these cases): a directly elected Mayor, control of some health and social care budgets, variation of and retention of Business Rates, regional planning and parts of criminal justice. City Deals are being applied to other parts of the Northern Powerhouse that also involved increased powers being devolved to local level to varying degrees, though more progress is needed in other Northern Cities to match that achieved by Manchester.

The analysis of performance and prospects in this article points to the importance of using existing or any additional powers to boost employment and, indeed, to expand the productive base of the economy. This, in turn, could raise fiscal receipts in the Northern Powerhouse. Of particular value would be measures to promote a greater number of higher wage jobs<sup>13</sup>, stronger innovation performance<sup>14</sup>, and improved transport infrastructure to improve the internal and external connectivity of the Northern Powerhouse<sup>15</sup>. It is important here to address income inequalities within the North, as highlighted in recent Centre for Cities research<sup>16</sup>, through local transport and skills initiatives, as well larger long term schemes like the HS3 rail project. Many smaller towns and rural areas in North have been left behind even as the larger cities like Manchester and Leeds have performed relatively well in recent years.

In addition to investment by the private sector, significant extra public sector capital spending will also be required. In the March 2016 Budget the Chancellor committed to an *additional* spend of £630m in the Northern Powerhouse, mostly on improving road and rail links. It is important such investment does occur as planned.

### Possible challenges and opportunities of Brexit

We considered a number of ways in which the Northern Powerhouse may be more or less vulnerable than the rest of the UK economy to the impact of Brexit (which was considered in detail in Section 2 above at the national level).

For example, to what extent are Northern Powerhouse businesses dependent on the EU as an export market?

Table 4.5 shows that the dependency of the North West and Yorkshire and the Humber on the EU market is very similar to the UK average. The North East, however, stands out as having a relatively high export dependency on the EU.

The Northern Powerhouse also accounts for about one-third of UK aerospace output and a similar proportion of pharmaceutical exports. Two major car manufacturing plants are also located in the region<sup>17</sup>. A potential challenge for some of these big business clusters would be any disruption to supply chains after Brexit<sup>18</sup> and indeed impact on FDI into these sectors.

Farming and fishing are two sectors where the level of intervention by EU policies has been particularly intense, alongside a substantial provision of funds from the EU. It is worth considering whether these sectors are relatively strongly represented within the Northern Powerhouse, but Table 4.6 suggests that this is not really the case with the partial exception of Yorkshire and the Humber<sup>19</sup>. But even there it is only around 1% of the economy.

**Table 4.5 – Exports of goods to EU as a % of total exports of goods, 2015**

	%
North East	58
North West	47
Yorkshire and the Humber	47
UK average	48

Source: HMRC

**Table 4.6 – Agriculture, fishing and forestry's output (GVA)\* as a % of total regional output, 2014**

	%
North East	0.7
North West	0.5
Yorkshire and the Humber	1.1
UK average	0.7

Source: ONS

Note\*: Gross value added- a close approximation to GDP

<sup>13</sup> The importance of raising the employment rate was stressed by IPPR North and the Northern Economic Commission 2012, **Northern Prosperity is National Prosperity**.

<sup>14</sup> Especially in the context of advanced manufacturing and tradeable services business clusters. Issues relating to branding, networks and supplies of specialised skills were emphasised by the Centre for Cities and McKinsey 2014, **Industrial Revolutions: Capturing the Growth Potential**.

<sup>15</sup> The hitherto slow speed of trans-Pennine rail journeys has been noted; Centre for Cities 2014, **Cities Outlook**.

<sup>16</sup> **10 years of tax in British cities**, Centre for Cities, July 2016, which can be accessed here: <http://www.centreforcities.org/publication/10-years-tax/>

<sup>17</sup> See, IPPR North and Northern Economic Commission 2012, **Northern Prosperity is National Prosperity**.

<sup>18</sup> HMT 2016, **The Long-term Economic Impact of EU Membership and the Alternatives**.

<sup>19</sup> Whilst the two sectors are combined in the data the **direction** of impact of EU policies on output has perhaps been very different in fisheries as compared to farming.



**Table 4.7 – EU annual funding for farming in the Northern Powerhouse**

Northern Powerhouse Agriculture, fishing and forestry GVA 2014, £m	2,168
England Agriculture, fishing and forestry GVA 2014, £m	8,812
Northern Powerhouse Agriculture etc. GVA as % of the England Agriculture etc. GVA	24.6
Total CAP funding for England (Pillars 1 and 2) euro m, 2014-20	17,941
Total CAP funding for England £m, 2014-20*	14,951
Total CAP funding for England £m, annually**	2,492
<b>Implied CAP funding for Northern Powerhouse £m, annually**</b>	<b>613</b>

Source: ONS, House of Commons 2016, Exiting the EU: Impact in Key UK Policy Areas

Note\*: Assuming an exchange rate of £1=1.2 euro

Note\*\*: Dividing the 2014-20 total by six

Note\*\*\*: Multiplying the total for England by the Northern Powerhouse share of sectoral GVA, i.e. 0.246

Allied to the relative size of the farming sector is the question of the extent to which the Northern Powerhouse has received EU funding through the Common Agricultural Policy (CAP). Whilst data on this were not available directly, Table 4.7 shows how we produced an estimate:

If we assume the Northern Powerhouse's share of total EU funding for farming was in proportion to its share of total agricultural output in England, then those funds would amount to just over £600m in 2015. This is equivalent to 28% of agriculture GVA in the region, so it would be significant in that sector and the rural communities it supports, though it is possible a future UK government may replace all or most of these funds to protect farmers. But £600m is equivalent to only around 0.2% of total Northern Powerhouse annual GVA, so it is not a huge issue for the economy as a whole though it is clearly important for rural communities.

In terms of other EU funding disbursed in the Northern Powerhouse area, we considered the annual average spend by the European Regional Development Fund. During 2013-2015 this averaged £14.2m annually in Yorkshire and the Humber, £16.5m in the North East and £60.2m in the North West. There will also be other EU funds that could potentially be lost, notably from the European Structural and Investment Funds (ESIF), which we estimate could be worth over £300 million per annum to the North of England. These amounts will fund many worthwhile projects, although they may not be large relative to the size of the Northern economy as a whole, so it will be important that this lost funding is replaced by a future UK government – and indeed enhanced where possible.

In summary, there could be material costs of Brexit for the Northern regions in terms of exports to the EU and disruption to inward investment and supply chains for international companies operating in these regions. The EU funding impacts could also be important for rural communities and some other sectors of the Northern economy, so will need to be replaced by UK government funding in future (and where possible enhanced in priority areas for development).

### Leaving the EU could also create some opportunities

For example, once outside of EU Law, the UK central government and Treasury could - if they wished - be more radical in decentralising fiscal powers. At least in principle, the Northern Powerhouse could have its own rate of, say, Corporation Tax or VAT<sup>20</sup>. Whether this will always be desirable is debatable, but there would be more options available and it could also reinforce the case for other forms of devolution of powers within the UK, continuing recent trends.

The Northern seaports might be well placed to capitalise if UK trade patterns shifted from the Continent to the rest of the world, hence creating a greater focus on trans-Atlantic trade routes. One recent study reported that only 15% of UK container traffic passed through ports in the North<sup>21</sup>.

In terms of boosting the UK's overall connectivity to the rest of the world beyond Europe, a key role could be played by Manchester Airport given it currently has substantial spare capacity<sup>22</sup>.

20 Any decision to do so would have to be carefully weighed. There would be certain administrative and compliance costs. There could be some displacement effects around the edge of whatever region adopted the new, lower rate. Probably most importantly, tax devolution would be probably be conditional on the Northern Powerhouse assuming any risk that in the future the tax base might grow more slowly than expected.

21 IPPR North and Northern Economic Commission 2012, **Northern Prosperity is National Prosperity**.

22 Which contrasts to airports in the South East.

## 4.5 Conclusions

The Northern Powerhouse currently makes a sizeable contribution to the overall level of UK output, albeit with lower average living standards than the UK average. The government has clearly recognised the North as a priority for future investment and the vote to leave the EU only makes this more urgent.

The Northern Powerhouse already contains some of the UK's leading business clusters in sectors such as cars, aircraft, pharmaceuticals and retail. In order to grow these and, indeed, develop more such clusters much will depend on how far the challenges posed by Brexit can be met and how far businesses in the Northern Powerhouse can make the most of the development of the UK's trading relationships beyond Europe to the rest of the world.

Over the next decade, we estimate that total employment levels in the Northern Powerhouse could grow by around 192,000 from 2015 levels if the short term shock of Brexit can be overcome and additional investment is made in key areas such as transport, skills and innovation. This assumes that sectoral performance levels could rise to those currently attained in the South East after this investment is made. It also assumes that a reasonable measure of free trade access to the EU Single Market can be retained.

Of course, there are many uncertainties around these projections, but the potential for growth is clear. And overall growth performance could be even better if the Northern Powerhouse can increase its share of sectors such as business services which have higher future jobs growth potential<sup>23</sup>.

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<sup>23</sup> See, PwC November 2014, "Getting the balance right in the UK regions", *UK Economic Outlook*.

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