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March 15, 2016 6:11 am

North of England's economy undermined by entrenched weaknesses

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On one point, at least, there is unanimity across the UK political divide about the economy of the north of England — it is not reaching its potential.

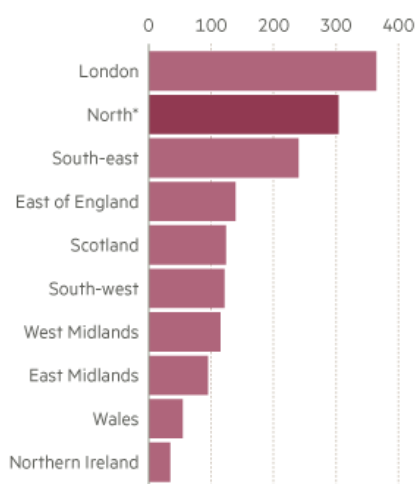
Historical trends, the centralised nature of the UK economy, the welfare state, the decline of heavy manufacturing — all have been offered as explanations for the underperformance of the north compared with the UK overall.

London dominates the UK's image abroad. No English city is even a quarter of the capital's size. Yet if it were a single entity, the north of England's economy — worth £304bn — would rank as the EU's 10th-largest.

The north-west, Yorkshire and Humberside and the north-east are the birthplaces and bases for innovative and growing businesses in the vanguard of some of the UK's most important growth sectors. Strengths include science and health, digital and technology, energy and advanced manufacturing.

The north's economy rivals London's in size ...

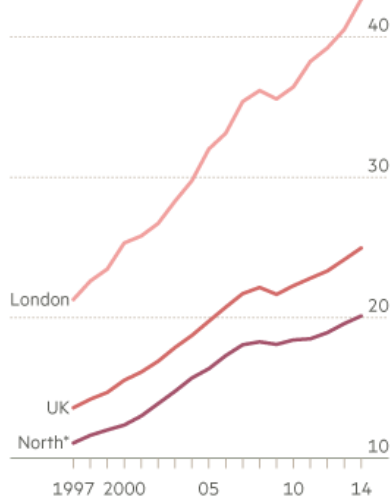
Gross value added, 2014 (£bn)



* North-west, north-eEast, Yorkshire and Humberside
Source: ONS

... but the gap in output is widening

Gross value added per head (£ '000)



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Research published last month by the Enterprise Research Centre found the number of high-growth companies — “gazelle” businesses with 10 or more employees that have increased their workforce by 20 per cent over three years — was growing twice as fast outside London, although the capital still has the highest proportion in the UK. Leeds and Liverpool were among the gazelle hotspots.

Investors see potential in the north. Investec, the South African bank, opened its first

investment banking office outside London last year in Leeds. Dan Sheahan, who heads it, says: “A lot of private equity deals have been in the north. We felt there was a gap in the market for a full-service investment bank for mid-market entrepreneurs.”

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The north's 29 universities are centres of collaboration between science and industry. The region has a strong cultural and tourism offering and areas of outstanding natural beauty.

Yet despite this, the gap in gross value added (GVA, a measure of output) between the north and the rest of the UK is substantial and stubborn. The Treasury estimates that if the northern economy grew in line with the UK's from 2013 to 2030, this would be worth £44bn in real terms to the north.

In 2014, GVA per-head growth in each of the three northern regions lagged behind the UK's 3.6 per cent average. On a base of UK GVA per head of 100, the figure for the north-east is 74, for Yorkshire and the Humber 80.7 and for the north-west 85.4.

The north-east's GVA, England's lowest per head regionally, was £18,216; London's was £42,666.

Meanwhile, the recent Rebalancing report from EY, the professional services firm, forecast that London's 2015 GVA growth would be 3.4 per cent, with the south-east, south-west and east set to outstrip the UK's 2.3 per cent overall. London's outperformance, it projected, will continue through to 2018.

The north's business community cites deficiencies in transport infrastructure, government under-investment in connectivity and skill shortages as factors inhibiting growth. Richard Flint, chief executive of Sky Bet, a Leeds-based online gambling company that employs 800, says: “Having recruited 360 people in just nine months we still have around 125 digital job vacancies to fill and it's becoming harder and harder to do so.”

A recent UBS regional policy report found deep-seated imbalances, and in some respects systemic, with policy

overall “barely acting to offset the natural drift of business activity towards the south”. Divergencies, the bank says, go back as far as the late Victorian era.

The Trades Union Congress partly blames government cuts since 2010. The north, it says, has been hardest hit by spending cuts, with the net loss of almost 400,000 public-sector jobs in the UK.

“ We still have 125 digital job vacancies to fill, and it is becoming harder to do so ”

- Richard Flint

Latest official data show rising employment across most of the north, but unemployment in the north-east and Yorkshire and the Humber remains above the UK 5.1 per cent average.

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Wider trends are a challenge. The fall in oil prices has hit the oil and gas and subsea sector. Manufacturing and steelmaking are under pressure. Uncertainty over the outcome of the [EU referendum](#) also means a potentially choppy time for the region's exporters in sectors such as automotives and chemicals.

The north has great economic contrasts. A new report from the Joseph Rowntree Foundation, the social research charity, lists among the UK's “top 12” struggling

cities, three within Greater Manchester: Rochdale (1), Bolton (3) and Wigan (12). Yet Manchester is increasingly vaunted as the trailblazer and focus for Chancellor George Osborne's "Northern Powerhouse".

Northern reaction to this concept, and to the offer of a degree of devolution, has ranged from enthusiasm to deep scepticism. But at the least, the initiatives challenge the north to seize the opportunity.

Lee Perkins, UK and Ireland managing director of Sage — one of the north's great indigenous success stories, a global business software company headquartered in Newcastle — says there is cause for optimism.

"Not only can north-east businesses keep up with competitors around the UK, I believe we can leapfrog them," he says. "There has been an increase in confidence. Now, we need to work together and believe in ourselves."

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