

Understanding Different Economic Indicators

Introduction

This short note describes the differences between the three commonly used measures to describe economic performance at a regional level; GVA, GDP and GDHI. There is often confusion between the three.

All three are measures that are produced as part of National Accounts – which are produced at a country level (eg UK) rather than a regional/sub-regional level (eg Wales/East Wales). More information on National Accounts can be found in the System of National Accounts 2008 (SNA)¹ and the European System of Accounts 1995 (ESA)². The SNA is the internationally agreed standard set of recommendations on how to compile measures of economic activity, whilst the ESA, which is in line with the SNA, is more about its use in Europe.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is an integral part of the national accounts and provides a measure of the total economic activity in a region. GDP is often referred to as one of the main 'summary indicators' of economic activity. The estimates are 'Gross' because the value of the capital assets actually worn away (the 'capital consumption') during the productive process has not been subtracted.

There are three different theoretical approaches used in the estimation of one full GDP estimate. The first estimate of the UKs' GDP is based on the production approach only, whilst the second and consecutive estimates are based on all three (as all three conceptually should equal each other)

GDP from the output or production approach - GDP(O) measures the sum of the value added created through the production of goods and services within the economy (our production or output as an economy). This approach provides the first estimate of GDP and can be used to show how much different industries (for example, agriculture) contribute within the economy.

GDP from the income approach - GDP(I) measures the total income generated by the production of goods and services within the economy. The figures provided breakdown this income into, for example, income earned by companies (corporations), employees and the self employed.

GDP from the expenditure approach - GDP(E) measures the total expenditures on all finished goods and services produced within the economy.

Gross Value Added (GVA)

GVA measures the contribution to the economy of each individual producer, industry or sector. GVA is used in the estimation of Gross Domestic Product (GDP). The link between GVA and GDP can be defined as:

GVA (at current basic prices; available by industry only) plus taxes on products (available at whole economy level only) less subsidies on products (available at whole economy level only) equals GDP (at current market prices; available at whole economy level only).

Although GDP is not produced for Wales it can be thought of as being the same as GVA. The GVA estimates for Wales are produced using regional accounts methods³ in line with ESA95.

GVA at a sub-UK level is produced using the income approach (as GDP(I)). It is broadly the sum of compensation of employees (income from employment) plus gross operating surplus (profits from businesses) and mixed income (self employment income and rental income)

Gross Disposable Household Income (GDHI)

Gross disposable household income (GDHI) is the amount of money that individuals (i.e. the household sector) have available for spending or saving. For the purpose of these accounts households are merged with the non-profit institutions serving households (NPISH) sector. This mainly comprises charities and universities supplying

¹ <http://unstats.un.org/unsd/nationalaccount/sna.asp>

² <http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/esa95en.htm>

³ http://www.statistics.gov.uk/downloads/theme_economy/RegionalAccountsMethodologyGuide.pdf

products and services to the household sector, either for free, or at prices that are not economically significant. The GDHI estimates for Wales as produced using regional accounts methods³ in line with ESA95.

GDHI is the sum of primary incomes (the result of individuals' participation in the production process) less primary uses (property income paid and other borrowing) plus secondary incomes are received as the result of redistribution of income (pensions and benefits) less secondary uses (mainly non-discretionary payments, i.e. taxes and social contributions to National Insurance).

Comparisons of these economic indicators for Wales

Measure	Value (£bn)	£ per capita	Relative to the UK (UK=100)	Relative to the UK excluding London & South East (UKX=100)
GVA	44.5	14,842	74.3	86.2
GDHI	40.4	13,484	87.9	96.4
Primary Income	38.9	12,974	77.2	89.6

As noted by many, including the National Statistician⁴, GVA per capita has limitations in measuring the welfare of residents in a region/sub-region. Hence GDHI is the preferred measure of welfare.

GDP and GVA per capita also have limitations as indicators of *economic performance*, particularly at lower level geographies. GDP/GVA per capita will naturally tend to be lower in regions with a higher dependent population (such as Wales) and with net out-commuting (such as West Wales and the Valleys). In addition, as GDP/GVA includes capital charges such as depreciation, it is influenced by industrial structure. Primary Income (an important component within GDHI) is the best measure of the income earned by the residents of an area from economic activities (as it excludes secondary incomes), and arguably the best summary indicator of economic performance at lower level geographies.

Some of the most commonly used measures of economic performance are shown in the table below.

Welsh Economic Performance: Rank amongst UK countries/regions - latest data

Measure	Rank (/12)	Below Wales	Date
GVA per Capita	12	None	2009
GDHI per Capita	10	Yorkshire & the Humber North East	2009
Primary Income per Capita	11	North East	2009
Employment Rate	7	North West West Midlands Yorkshire & the Humber Northern Ireland North East	3 months to April 2011
Median Full-Time Employee Earnings	10	North East Northern Ireland	2010
Poverty (all ages)	=7	North East North West West Midlands London	2007/8-2009/10
Wealth per Household (mean) ¹	5	East Midlands Scotland West Midlands North West North East Yorkshire & the Humber	2006/8

¹ Excludes Northern Ireland

⁴ <http://www.statistics.gov.uk/cci/article.asp?ID=2103&Pos=1&ColRank=1&Rank=1>