

Background

There are a range of measures which aim to help us understand the economy.

This leaflet is designed to help users understand the differences between a few of the main measures, how they are calculated, what they are used for and their weaknesses.

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Understanding economic measures

A bitesize guide

Measure	What does it mean?	How is calculated?	What it is used for?	What are the weaknesses?
Gross Value Added (GVA)	The value of an area's economy, or a sector contribution to the economy.	The value of goods and services minus the cost of producing them.	Headline measure of economic prosperity.	This measure does not incorporate social and environmental factors. For example, if all the woodland is cut down, GVA would increase.
Gross Domestic Product (GDP)	Captures the same as GVA, apart from the treatment of taxes (e.g. VAT).	$GDP = GVA + \text{taxes (minus subsidies)}$.	Still used as the main measure to compare across Europe rather than GVA. ¹	As above.
Productivity	The average value each worker contributes to the area's economy, or to the sector in which they work.	Commonly measured using GVA per worker, or per hour worked.	To compare the added value per worker between areas, and to understand how labour intensive different sectors are.	As per GVA. Also, there is an assumption that low GVA per worker (i.e. less productive) is always bad. But more labour intensive sectors provide more jobs, which is not always considered.
Earnings	The average pay workers receive from employment.	National survey of employers on pay levels for their staff.	Understanding pay by area, gender, hours of work and for GB by sector.	Sample survey so year on year changes for Cornwall are not always reliable. Only includes income from employment.

More detailed definitions are available on the Office for National Statistics website (www.ons.gov.uk).

Type the following into the website's search bar:

- "Guide to Gross Value Added"
- "Guide to Gross Domestic Product"
- "Guide to productivity"
- "Annual Survey of Hours and Earnings methodology and guidance" (for earnings information).

¹ The main measure used to compare across Europe is based on GDP, but is called 'Purchasing Power Standard'. It adjusts the GDP to reflect the variation in the cost of living for different countries, so that different area's wealth can be directly compared. It is therefore an artificial currently unit.