



CREATIVE ECONOMY REPORT: 2016 UPDATE

ECONOMIC POLICY DEPARTMENT

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ABSTRACT

This report updates the Culture and Creative Industry (CCI) Report published in 2014 by the Economic Policy Department and contains an update of the economic evaluation. This update is however based on internal estimates carried out on the basis of national accounts data rather than the more detailed raw data from the SBS at 4-digit level. As a result, the data used in this report, particularly the sub-sectoral data, contains more estimates and hence can be less reliable than previous data prior to 2010. Nevertheless, the national accounts data still permits a broad analysis of the performance of the CCIs between 2010 and 2015. The CCIs over this period have outperformed the rest of the economy and in 2015 accounted for 7% of total gross value added and 6% of gainful employment. The high productivity of the CCIs has been maintained and labour productivity has actually increased during the period under review. The CCIs benefitted from a strong increase in turnover and profit margins have been sustained.

Keywords: Culture and Creative Industries; Gross Value Added; Profitability; Employment; Productivity

INTRODUCTION

In 2015 the Culture and Creative Industries accounted for 7% of the total Gross Value Added (GVA) created by the Maltese economy, up from 6% in 2010 as indicated in the last update of this report. To put this into perspective, this exceeds the direct contribution of the construction and civil engineering sector (4% of GVA) or the accommodation and food services sector (5% of GVA). The CCI's continued to grow at an average of 9% per annum between 2010 and 2015, almost matching the performance recorded in 2005 and 2010.

In 2015 the CCI's also accounted for 6% of total full time and part time gainful employment. Because there is a predominance of part-time employment in the traditional arts sector of the CCI's, employment in full time equivalent terms is estimated at 5% of total employment. Job creation in the CCI's almost tripled in the latter 5-year period. The CCI's created 2,800 new jobs between 2010 and 2015, compared to an increase of 1,100 new jobs between 2005 and 2010. Employment in the CCI's increased by a significant rate of 5% average annual growth between 2010 and 2015.

Overall gross value added per person employed in the CCI's is estimated at €37,900 which is currently higher than what is on average generated in either manufacturing (€32,100) or services (€34,100).

These indicators all point to the growing importance of the CCI's in Malta. They show a dynamic industry which generates growth and jobs. Nevertheless, there is scope to strengthen further the indirect contribution of the CCI's, particularly the linkages with the various other industries in Malta. Research carried out earlier by the Economic Policy Department suggest that in general (excluding the arts which were not covered by the study) and with a few exceptions, the CCI's display relatively weak GVA multipliers compared to other sectors of the economy. Such multiplier effects are not captured by the direct contribution as measured in this report.

The aim of this report, which is an update of the 2014 report, is to highlight the most recent trends observed in the CCI's. Unfortunately, some of the detailed data utilised in the 2014 report is no longer available and thus an element of estimation had to be carried out. This is described in more detail in the methodology section. This has constrained the analysis of the CCI's at the level of detail presented in the earlier report, particularly at sub-sectoral level.

METHODOLOGY

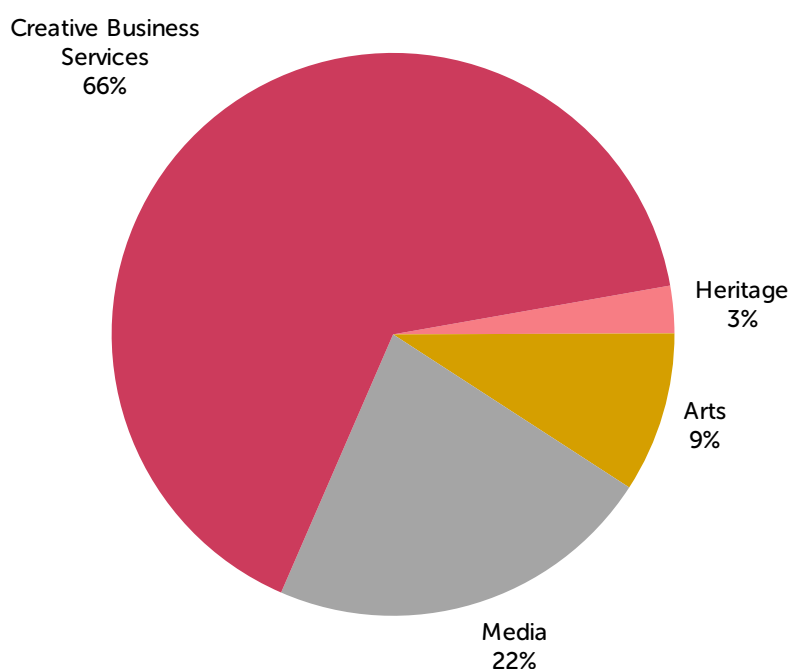
The study uses the 2014 Report data as a base. This data was in turn based on detailed information at 4-digit level available from the SBS. Unfortunately, the current SBS no longer contains detailed sectoral data at 4-digit level. Therefore, to complete this update the aggregate data at 2-digit level from (unpublished) national accounts, made available by NSO, was used to update the figures. Overall the CCI figures for 2010 reported in the 2014 report (based at 4-digit NACE) represent around 70% of the total value added of the sectors selected from national accounts excluding education (based at 2-digit NACE) indicating the level of overrepresentation resulting from the lack of more disaggregated SBS data. The data was scaled down to the 2014 Report data with 2010 acting as the common base year. The problem of overrepresentation is most acute in the business services category and in the crafts sector which are overrepresented by 1.7 times and 30 times respectively. The media sector at the selected 2-digit NACE is roughly equivalent to the 4-digit SBS whilst the Arts are underrepresented by 0.6 times. It is assumed that despite these over/under representations the evolution of the CCI sub-sectors over time follows closely the evolution of the selected national accounts data at 2-digit level. This is deemed to be a relatively benign assumption in most cases. The major constraint is actually deemed to be in the underrepresentation of the arts which are predominantly based on NACE 90 (Creative Arts and Entertainment Activities) and do not therefore allow an accurate distinction between the annual performance of visual arts, performing arts and music. Cultural education is assumed to move in line with the overall growth in total education activities in Malta. The significantly high representation of the crafts sector by NACE 23 (manufacture of non-metallic minerals) may also be a notable limitation. In this context the detailed results at a sub-sector level should be viewed with more caution.

FINDINGS

In 2015 the Culture and Creative Industries accounted for 7% of the total gross value added created by the Maltese economy, up from 6% in 2010 as indicated in the last update of this report. The composition of the CCIs is shown in Figure 1. Since 2010 the Media sector has lost its share in the CCIs (from 28% in 2010) as this was overtaken by the growing share of the creative business services (62% in 2010) and the arts (7% in 2010). Heritage maintained its overall share in the CCIs though it remains the smallest component. A more detailed composition is provided in Figure 2 which shows the various sub-sectors making up the CCIs.

Over the course of the last fifteen years the CCIs have seen their direct share of the Maltese economy grow by 2.4 percentage points indicating that over this period the CCIs have outperformed the rest of the economy. This followed a period of relative decline in performance up to 2007, after which the CCIs almost consistently outperformed the rest of the economy. Figure 3 shows the share of the CCIs since 2001. All the sub-sectors registered positive growth rates in gross value added¹ including a recovery in the heritage sector which increased by 9% whilst the Arts and the Creative Business Services continued to register double-digit growth rates. On the other hand, the Media sub-sector continued to slow down further reflecting the lack of growth in the printing and publishing sub-sector. (Table 1)

Figure 1: Composition of the CCIs in 2015



¹ Note that gross value added excludes other subsidies on production (D39) consist of subsidies except subsidies on products which resident producer units may receive as a consequence of engaging in production.

Figure 2: Detailed Composition of the CCI in 2015

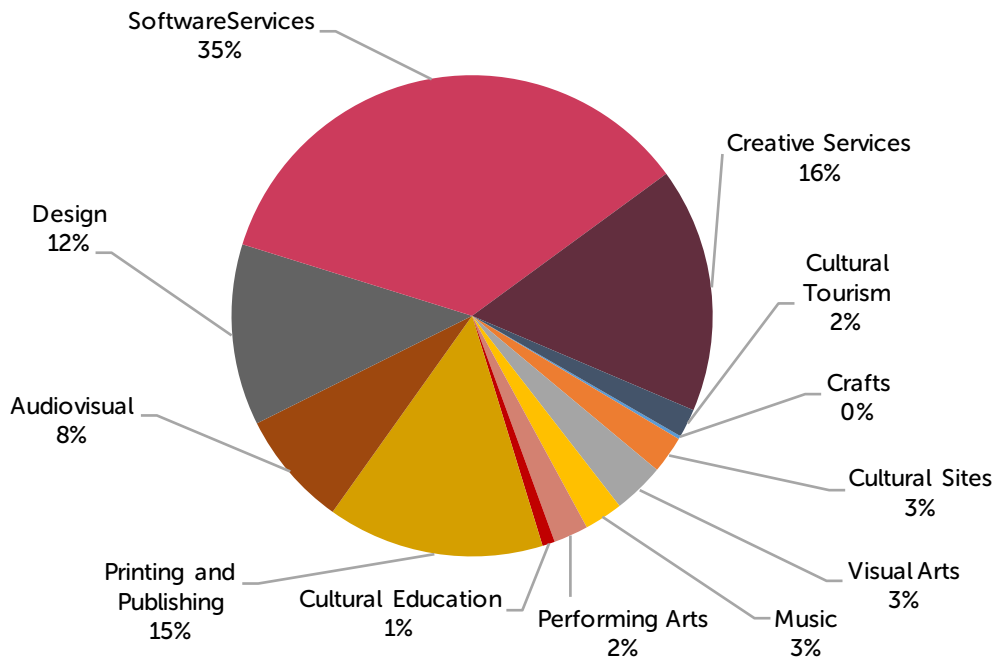


Figure 3: The CCI as a share of GVA

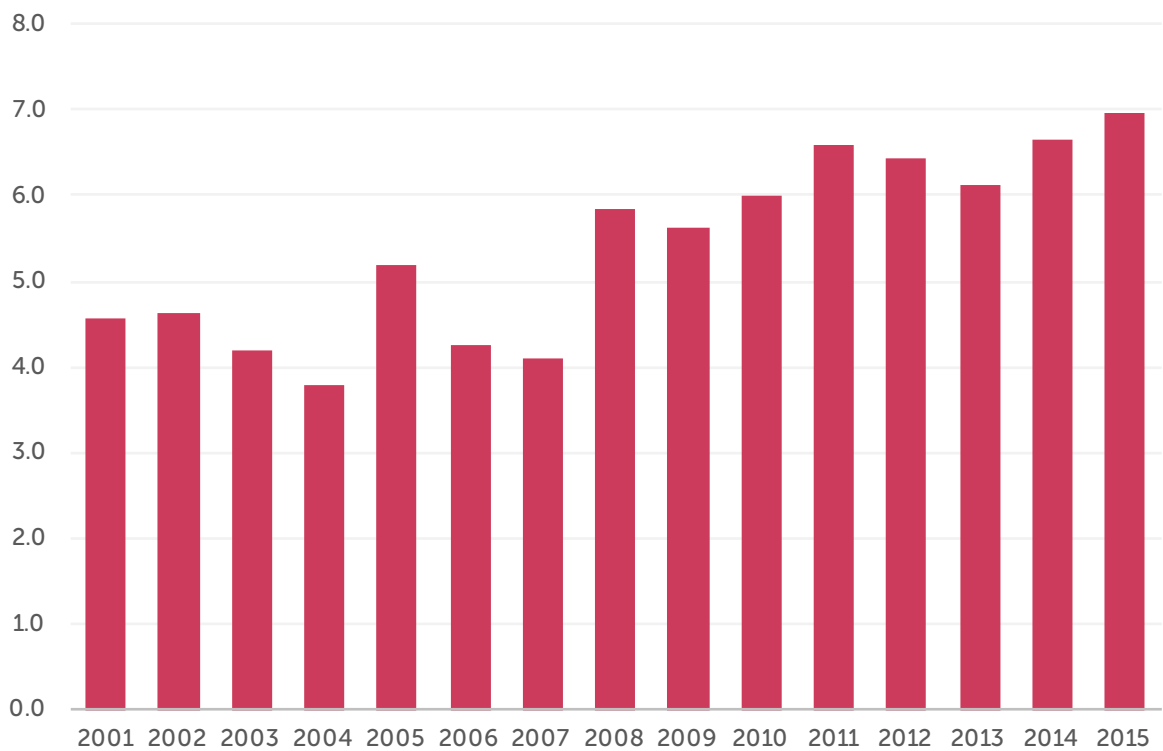


Table 1: Average Annual Growth in Gross Value Added

Average Annual Growth in Gross Value Added (%)			
	2000/05	2005/10	2010/15
Crafts	-0.9	-10.9	5.9
Cultural Sites	-	-2.6	9.3
Heritage	47.1	-3.6	9.0
Visual Arts	24.2	11.6	-
Music	0.1	30.9	-
Performing Arts	-4.1	7.3	-
Cultural Education	-	-	-
Arts	5.0	17.6	15.4
Printing and Publishing	0.4	4.0	0.9
Audio-visual	0.0	7.0	10.9
Media	0.3	4.7	3.8
Design	-	2.1	5.0
Software Services	32.1	19.3	9.5
Creative Services	145.5	7.3	18.2
Cultural Tourism	-	-	2.8
Creative Business Services	57.6	12.2	10.1
CCI	17.3	9.4	8.8

The employment performance was also relatively strong though it generally lagged the growth in gross value added as a result of labour productivity gains. The CCIs created 2,800 new jobs between 2010 and 2015, compared to an increase of 1,100 new jobs between 2005 and 2010. Employment in the CCIs increased by a significant rate of 5% average annual growth between 2010 and 2015. This compares favourably with the 2% growth recorded in the earlier five-year period. The strongest employment growth was registered in the creative business services which registered an average growth of 8.3% per annum followed by the arts which registered an average growth of 6% per annum between 2010 and 2015. The heritage sector maintained a relatively stable employment level whilst the decline evident in printing and publishing activity was followed by a decline in employment. Further details are provided in Figure 4.

Figure 4: Average Annual Growth in Employment

Average Annual Growth in Employment (%)			
	2000/05	2005/10	2010/15
Crafts	-2.7	1.6	-3.7
Cultural Sites	:	-7.8	1.7
Heritage	42.5	-6.1	0.6
Visual Arts	16.3	8.7	-
Music	2.6	17.6	-
Performing Arts	-1.1	-6.8	-
Cultural Education	-	-	1.9
Arts	3.8	5.5	6.0
Printing and Publishing	2.2	3.9	-1.5
Audio-visual	2.8	-4.1	0.4
Media	2.4	1.2	-1.0
Design	:	-2.1	5.9
Software Services	11.2	8.0	11.8
Creative Services	75.3	1.3	9.4
Cultural Tourism	:	:	-1.2
Creative Business Services	44.3	2.6	8.3
CCI	13.6	2.1	4.7

Productivity in the CCIs is relatively high relative to the other sectors of the Maltese economy. Every person employed in the CCIs generates on average €37,900 which is currently higher than what is on average generated in either manufacturing (€32,100) or services (€34,100). The performance varies significantly by sub-sector as shown in Figure 5. The strong performance is mainly attributable to the creative and software services. The media sector displays similar productivity levels as the rest of the economy. The more traditional arts and heritage sub-sectors display low GVA per person employed though this mostly reflects the predominance of part-time employment in the arts.

Indeed, the figures used above, which are consistent with the 2014 Report, tend to underestimate labour productivity when there is a predominance of part-time employment. The advantage of using national accounts data is that data for employment converted in full time equivalent is available upon request from NSO. Based on this information it is possible to get a better idea of labour productivity. Internal estimates based on these unpublished figures suggests that labour productivity in the crafts, the arts, and in printing and publishing is much higher than previously suggested whereas productivity in the creative services, the audio-visual and in cultural education is overvalued when full-time equivalent employment is not used. The remaining sub-sectors record relatively minor differences.

As indicated earlier, the 2010/15 period was characterised by further improvements in labour productivity (measured in GVA per person employed). However, the Design and the Software-Services sub-sector registered an annual average decline in productivity over the latter five-year period under analysis. Both sub-sectors have grown strongly during this period suggesting that the sector could have experienced some bottlenecks. It is also however worth noting that the software services generate in excess of €70,000 per person employed which is more than double the economy's average. Table 2 indicates the productivity trends in the various sub-sectors of the CCIs.

Figure 5: Productivity (GVA Per Person Employed)

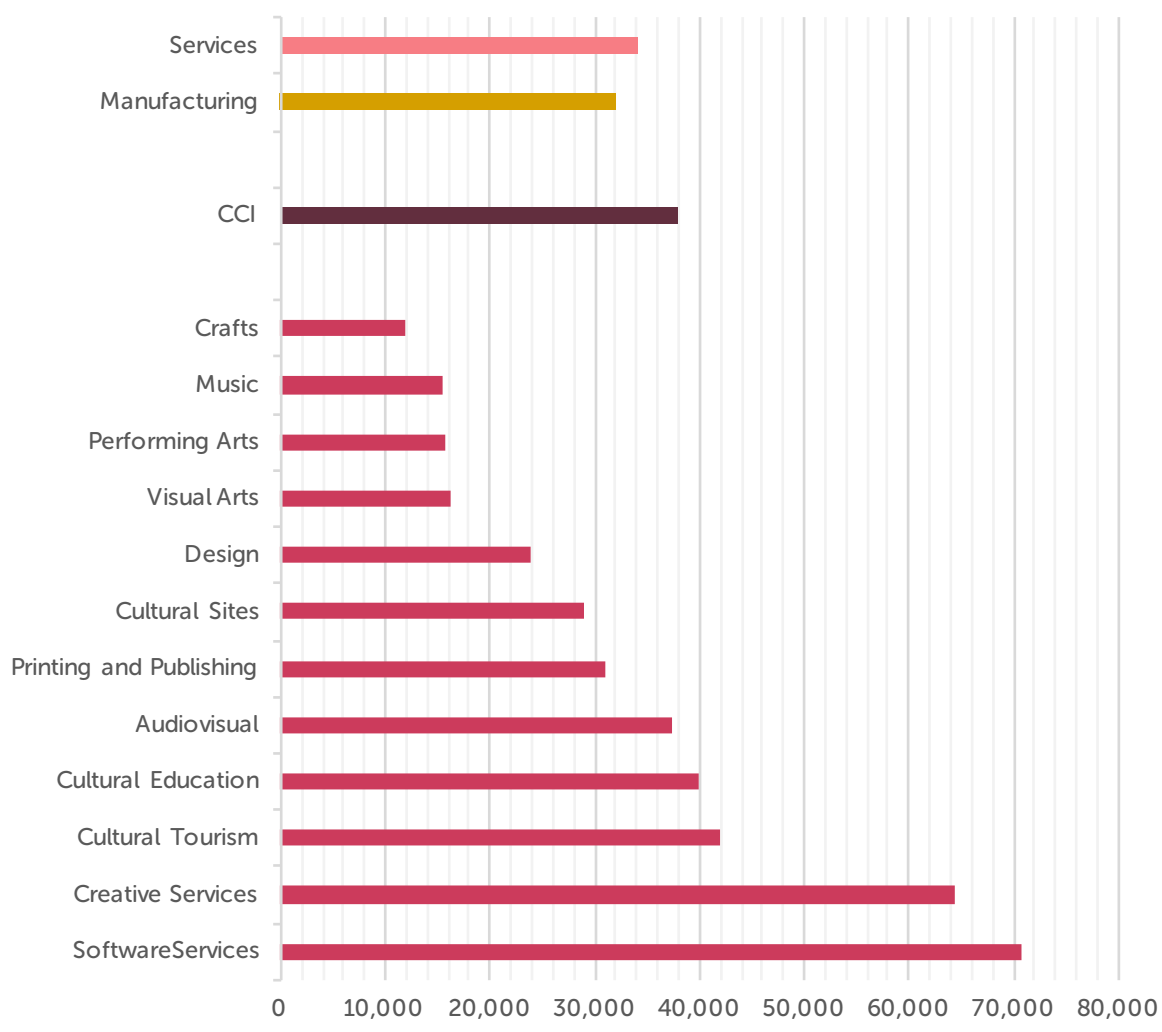


Table 2: Average Annual Growth in GVA per Person Employed

Average Annual Growth in GVA per Person Employed (%)			
	2000/05	2005/10	2010/15
Crafts	1.9	-12.3	9.9
Cultural Sites	-	5.6	7.4
Heritage	3.2	2.7	8.3
Visual Arts	6.8	2.6	-
Music	-2.4	11.3	-
Performing Arts	-3.1	15.0	-
Cultural Education	-	-	4.7
Arts	1.2	11.5	8.8
Printing and Publishing	-1.8	0.1	2.5
Audio-visual	-2.7	11.6	10.5
Media	-2.1	3.5	4.8
Design	:	4.3	-0.9
Software Services	18.8	10.5	-2.0
Creative Services	40.1	5.9	8.0
Cultural Tourism	:	:	4.0
Creative Business Services	9.2	9.4	1.6
CCI	3.3	7.2	4.0

In Figure 6 the 45-degree line represents points on which growth in turnover and GVA moved together. Most sub-sector performance was very close to this 45-degree line. This suggests that the overall growth in value added by sub-sector generally followed closely the growth in turnover registered during the 2010/15 period suggesting that the improvement in demand conditions or gains in market shares were the main factors contributing to the growth in GVA. The major exception is the cultural tourism sector which has registered an increase in GVA despite the fall in average annual growth in turnover. In this case intermediate costs of production have declined more strongly than the decline in registered turnover such that value added still registered a positive growth.

Meanwhile the growth in compensation of employees has also, by and large, matched the growth in turnover such that in general profit margins have been maintained between 2010 and 2015. It is interesting to note that the downward trend in profitability in the heritage sector has been halted but the sector continues to register very low or negative profitability. The Arts have largely maintained the high levels of profitability following the trend increase between 2004 and 2011, thus consolidating their position. The high profitability in this sector is indicative of the potential for further entrants in this sub-sector. The profitability in the media and creative business services stayed close to the 20% margin and is indicative of a fairly stable and possibly mature sector. (Figure 7)

Figure 6: Average Annual Growth in Turnover and Value Added (%) 2010/15

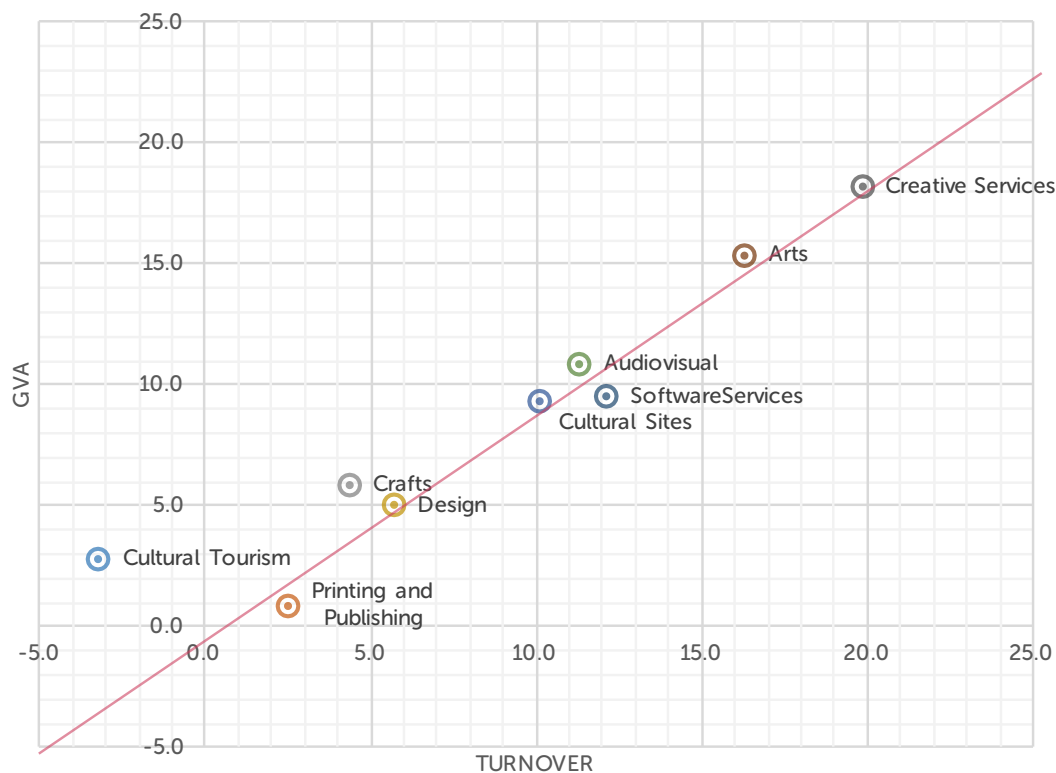
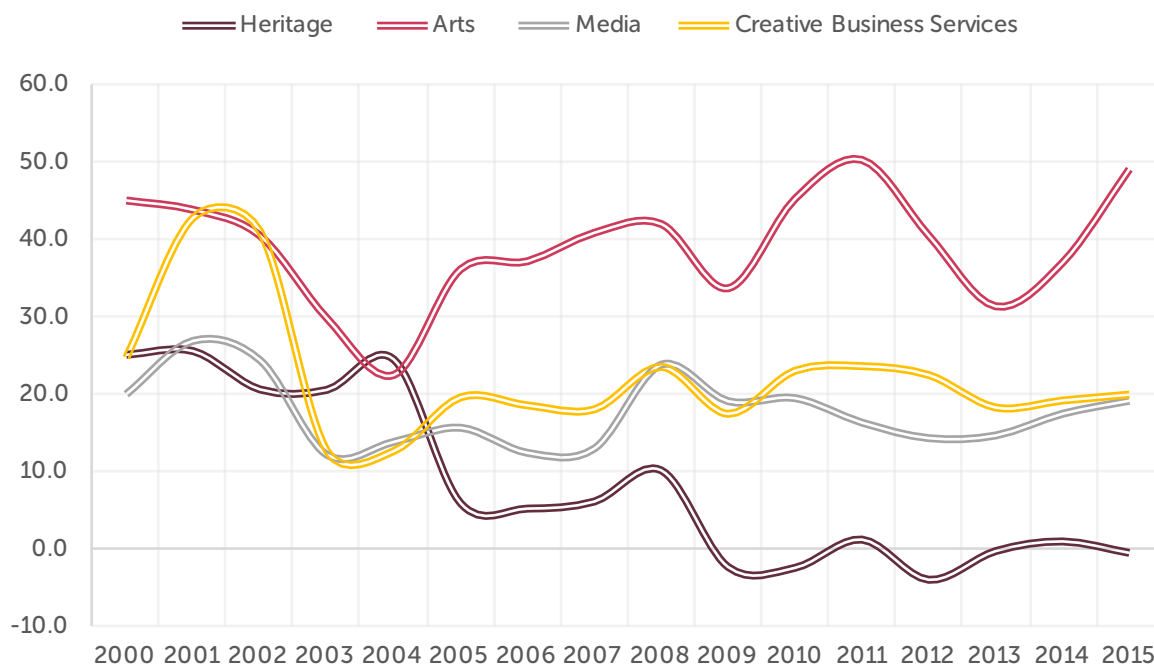


Figure 7: Profit Margins





CONCLUSIONS & WAY FORWARD

This report provides an overview of the evolution of the CCIs since 2010, thus updating the analysis of the sector provided in the CCI Report published in 2014. During the five-year period up to 2015 the CCIs have outperformed the rest of the economy and have now reached 7% of total Gross Value Added. The CCIs benefitted from a strong growth in turnover and managed to maintain its relatively high profit margins during this period. Labour productivity also improved during this period. Nevertheless, the sector still generated an average employment growth of almost 5% per annum. The positive performance of the CCIs continued to be characterised by double-digit growth in the Arts and the Creative Business Services whilst a recovery in Heritage was recorded following previous declines. Nevertheless, the performance in the Media sub-sector remained relatively weak, particularly in the printing and publishing industries. Overall however this report indicates a strong and growing sector.

As noted in the methodology, the absence of detailed SBS data at 4-digit level somewhat limits the accuracy and reliability of this analysis and improvements in the underlying data is necessary for a deeper and richer economic analysis.