Unused capacity in a polycentric region: the East Midlands and the Governor's case for regional growth

Analytical note, 19 November 2026, reflecting on Andrew Bailey's speech to the Institute of Economic Development Conference, London, 18 November 2026

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Disclaimer

This is a professional analytical report intended to inform regional policy discussion, not an econometric study designed to test causality. It draws on descriptive comparisons of published indicators; the relationships discussed do not establish causal effects, and the proposed mechanisms and policy implications are interpretations rather than tested findings. The views and opinions expressed are the authors' own and do not necessarily reflect those of their respective institutions. Small-area survey data are imprecise, subregional productivity ends in 2023 and the 2024 regional accounts are provisional. Within these limits, the indicators support a case for addressing both the region's productivity shortfall and the barriers that may prevent residents from sharing fully in its economic opportunities.

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Key message. The Governor treats regional disparity as national productive capacity that goes unused, and the East Midlands shows that argument in a particular form. On the latest Labour Force Survey estimates the region employs a larger share of its working-age population than the UK (**76.9% against 75.4%** in July to September 2026), yet it produces **about 85% of UK output per hour**, and its residents' disposable income per head is **88% of the UK figure**. The shortfall is not confined to one lagging place.

Within the region, the sharpest divide runs between the three cities and their surrounding counties. Nottingham and Derby produce far more per head than the regional average, and all three cities are major employment centres, yet their own residents have the highest claimant rates and the lowest disposable incomes among the region's counties and unitary authorities. In a region with no dominant city, the lesson of the speech is less about attracting investment than about embedding it, which means connecting city jobs to city residents and spreading productivity through a manufacturing base that is large but not highly productive.

Output per hour trails the UK across the region; inactivity concentrates in the cities

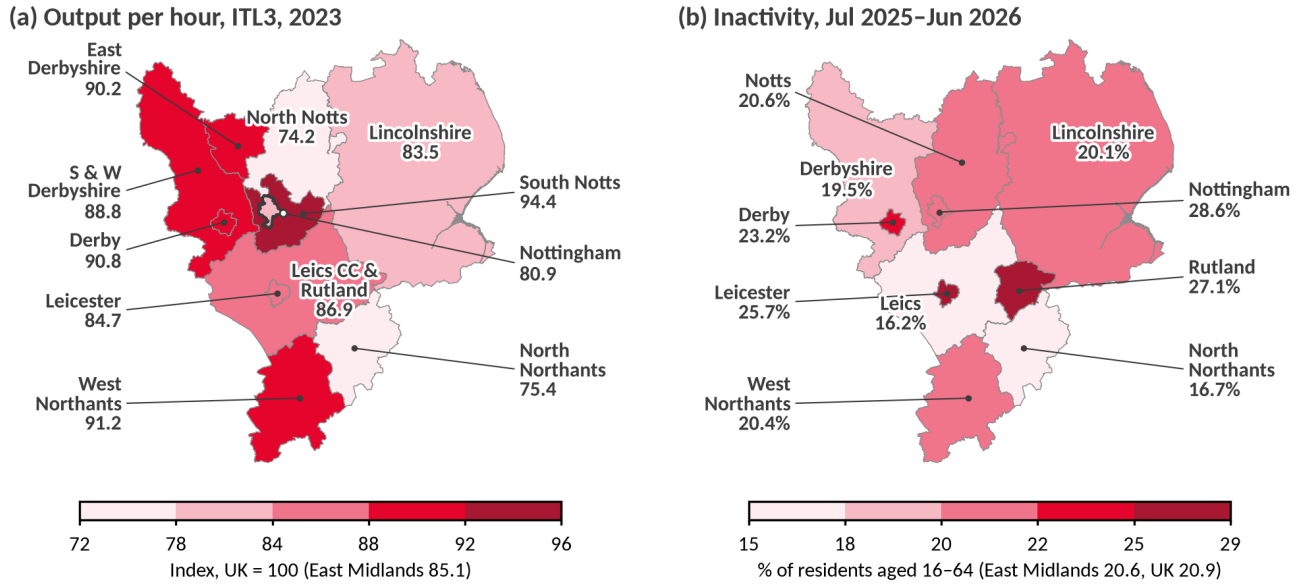


Figure 1. Output per hour: ONS (2025) Subregional productivity, Table A1, current-price smoothed GVA(B) per hour worked, ITL3, 2023 (UK = 100). Inactivity: ONS Annual Population Survey, July 2025 to June 2026 (Nomis NM_17_5), counties and unitary authorities; Rutland's 95% confidence interval is ±7.4 points. Labels are rounded to one decimal place. Each map has five classes with hand-set, unequal breaks (shown on the colour bar); the classes do not contain equal numbers of areas. Boundaries: ONS Open Geography Portal; contains OS data © Crown copyright and database right 2026.

1. What the Governor argues

Bailey (2026) frames regional growth around two dimensions: productivity and participation. He traces today's regional gaps to deindustrialisation from the 1980s and the accompanying rise of agglomeration-intensive finance and business services. Industrial composition, however, cannot explain everything: productivity also differs by location within industries. London's output per hour in 2023 is 28.5% above the UK average. Participation varies substantially too, with employment rates in July to September 2026 ranging from 79.4% in the South West to 70.9% in the North East. For policy, he distinguishes attracting investment from embedding it through local skills, supplier linkages, transport to new jobs and universities that support innovation. Housing and transport shape the effective size of labour markets, while the energy shock and AI adoption affect places unevenly. His objective is convergence in productivity, opportunity and living standards, not in industrial structure. This argument draws on Chan, Ellingsen and Simpson (2025), who show, across developed countries, that regional income convergence slows after 1980 because growth falls less in the densest regions, leaving regional rankings highly persistent.

2. What the East Midlands data show

A polycentric region

The East Midlands has 5.1 million residents (mid-2025), 356,310 private-sector businesses at the start of 2026, of which 99,680 employ staff, and a GDP of £162.3 billion in 2024 (provisional). The polycentric description holds up against the data. Nottingham, Leicester and Derby together account for 19.6% of the region's population and 22.2% of its GDP, and the largest of the three, Nottingham, produces 8.8% of regional GDP. By comparison, Birmingham produces 19.6% of West Midlands GDP and Leeds 20.8% of Yorkshire and The Humber's. Local-authority boundaries understate the cities' functional economies, so these shares are lower bounds, but no single centre dominates.

Productivity

On ONS's smoothed measure, the region's output per hour in 2023 is 85.05 (UK = 100), and its output per filled job is 84.72. No ITL3 sub-region reaches the UK level on this measure, although the unsmoothed series puts South Nottinghamshire at 100.08. The range runs from 74.17 in North Nottinghamshire and 75.41 in North Northamptonshire to 94.37 in South Nottinghamshire (Figure 1a). The region is also more industrial than the country: manufacturing accounts for 11.6% of employment, against 7.1% in England, and 15.9% in Derby. A region with more manufacturing than England, yet lower output per hour, cannot be explained simply by a shortage of industry. This fits the Governor's point that within-industry differences, and the firms and skills behind them, drive much of the gap.

Participation

The regional average conceals deep gaps within the region (Figure 1b). In the year to June 2026 the employment rate is 64.7% in Nottingham and 68.4% in Leicester, against 80.6% in Leicestershire and 79.7% in North Northamptonshire, and inactivity reaches 28.6% and 25.7% in the two cities. Part of this is the universities: students make up 39.4% of the economically inactive in Nottingham and 34.3% in Leicester, against 26.0% in the UK. Administrative data, which students do not distort, point the same way. In October 2026 claimants account for 6.0% of residents aged 16 to 64 in Nottingham, 5.3% in Leicester and 4.9% in Derby, against 3.5% for the region and 3.9% for the UK. Derby's inactivity has a different origin: the long-term sick make up 34.2% of its inactive population, a share matched in Derbyshire (35.2%) and North Northamptonshire (36.6%) and above the UK's 29.2%. Survey intervals for the cities are about ±3.5 points, well inside the city–county contrast.

2. What the East Midlands data show (continued)

Pay, income and skills

The distinction between workplace prosperity and resident prosperity is central to the region's pay and income patterns. Full-time median weekly pay for residents in 2025 is £720.8 in the region against £766.6 in the UK. In all three cities, pay for jobs located there exceeds pay for residents: Derby £794.6 against £733.5; Nottingham £672.6 against £633.9; and Leicester £680.3 against £639.5. Leicestershire and Nottinghamshire show the reverse. This pattern is consistent with better-paid city jobs going to people who commute in from the counties. Household income provides a further perspective on the contrast between city output and resident prosperity (Figure 2). Workplace-based GDP per head in 2024 is £43,204 in Nottingham, £37,814 in Derby and £29,373 in Leicester. Yet the three cities have the lowest disposable income per head among the region's counties and unitary authorities: £16,786 in Leicester, £17,696 in Nottingham and £19,635 in Derby, against £22,761 for the region and £25,965 for the UK. Qualifications add another dimension to the regional productivity challenge. In 2025, 41.1% of the region's working-age residents hold RQF level 4 or above, against 48.4% in the UK, with the lowest shares in North Northamptonshire (33.8%) and Lincolnshire (35.1%), both identified above as low-productivity areas.

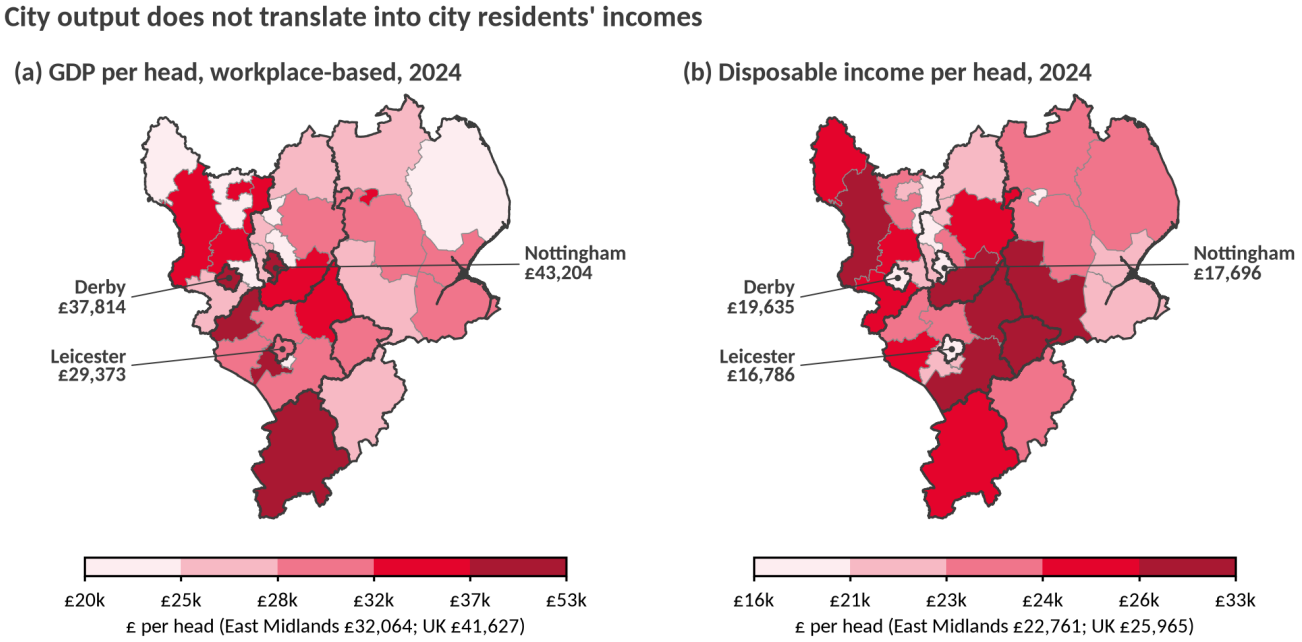


Figure 2. GDP per head: ONS (2026) Regional GDP: local authorities, 1998 to 2024, Table 7 (2024 provisional; workplace output divided by resident population, so commuting raises city values). Disposable income: ONS (2026) Regional gross disposable household income: local authorities, 1997 to 2024, Table 3 (2024 provisional). Districts and unitary authorities, with county boundaries in bold. Each map has five classes with unequal breaks (shown on the colour bar), set by hand to approximate quintiles of the 35 areas; class sizes range from 5 to 9 areas in (a) and from 6 to 9 in (b).

2. What the East Midlands data show (continued)

Table 1. East Midlands counties and unitary authorities against the region and the UK

Area	GDP per head, £, 2024	GDHI per head, £, 2024	Employment rate, %	Inactivity rate, %	Claimant rate, %, Oct 2026	Median pay, residents, £/wk	Median pay, workplace, £/wk	RQF4+, %, 2025	Manufacturing share, %, 2024
Derby	37,814	19,635	72.3	23.2	4.9	733.5	794.6	42.1	15.9
Derbyshire	28,243	23,899	77.3	19.5	2.7	740.0	722.1	42.6	14.8
Nottingham	43,204	17,696	64.7	28.6	6.0	633.9	672.6	42.5	4.7
Nottinghamshire	27,093	23,567	76.4	20.6	3.2	730.8	686.5	41.6	12.3
Leicester	29,373	16,786	68.4	25.7	5.3	639.5	680.3	40.3	11.0
Leicestershire	36,308	24,314	80.6	16.2	2.3	766.6	718.5	48.2	12.2
Rutland	31,567	30,310	72.0	27.1	1.7	776.3	742.2	43.2	9.4
Lincolnshire	29,213	23,106	76.7	20.1	3.2	694.0	670.8	35.1	11.4
North Northants	27,946	23,357	79.7	16.7	3.4	750.2	700.3	33.8	13.3
West Northants	40,774	25,629	76.3	20.4	3.4	728.3	729.1	40.4	8.3
East Midlands	**32,064**	**22,761**	**75.6**	**20.6**	**3.5**	**720.8**	**703.8**	**41.1**	**11.6**
United Kingdom*	**41,627**	**25,965**	**75.5**	**20.9**	**3.9**	**766.6**	**766.6**	**48.4**	**7.2**

Sources: ONS Regional GDP and regional GDHI (2024 provisional); county values are the sum of district totals divided by the sum of district populations. APS July 2025 to June 2026 (employment and inactivity, ages 16 to 64) and January to December 2025 (RQF4+); claimant count, October 2026; ASHE 2025, full-time median gross weekly pay; BRES 2024, employment (Nomis). *UK manufacturing share is for Great Britain, the coverage of BRES.

3. What this means for the region

The data point to two different constraints, and policy should not treat them as one. The first is a familiar post-industrial pattern. Output per hour is lowest in North Nottinghamshire, North Northamptonshire and Lincolnshire, and the last two also have the region's lowest graduate shares, while North Northamptonshire combines this with high health-related inactivity. The remedy works through skills and the diffusion of management practice and technology among existing firms. The second constraint is specific to the cities, and it is the Governor's distinction between attracting and embedding in its sharpest form. Nottingham, Derby and Leicester already attract employers, and pay for jobs located in them exceeds pay for their residents. The benefits do not reach those residents, whose claimant rates are the highest and whose household incomes are the lowest among the region's counties and unitary authorities. Investment that lands in the cities without changing this simply widens the gap between workplace and residence.

3. What this means for the region (continued)

Polycentricity changes the transport and housing argument. Chan, Ellingsen and Simpson (2025) find that the densest regions lose least growth after 1980, which works against a region whose activity is spread across several centres. The East Midlands cannot manufacture a single dominant city, but it can enlarge its effective labour market by making it faster and cheaper to travel between Derby, Nottingham and Leicester, and from their poorer neighbourhoods to the jobs on their edges. In Bailey's terms, connectivity among the three cities is the region's substitute for density, and housing supply close to those links decides whether that larger market forms at all.

Universities can help embed investment by connecting skills, research and local economic opportunity. The high share of students among inactive residents in Nottingham and Leicester highlights the importance of the cities' student populations, while the 7.3-point gap in regional RQF4+ attainment against the UK raises a related policy question about developing and retaining higher-level skills. Institutions such as the University of Leicester can contribute in three practical ways: supporting graduate retention in the region's firms; building supplier and research links with the manufacturing base so that productivity spreads within sectors; and acting as anchor employers and purchasers in the parts of the cities with the highest claimant rates. These roles also connect to the speech's warning that economic shocks and technological change affect places unevenly. With 11.6% of employment in manufacturing, the region has a particular interest in how the current rise in energy prices affects its industrial base relative to England. Its lower RQF4+ attainment share also reinforces the importance of skills policy in helping firms benefit from AI adoption, whose gains the Governor notes are concentrated in sectors such as IT.

Sources. ONS mid-year population estimates 2025; DBT Business population estimates 2026 (official statistics in development); ONS Regional GDP by ITL region and local authority, 1998 to 2024 (Sept 2026); ONS Subregional productivity (June 2025); ONS Labour market in the regions of the UK, 17 November 2026 (Table 1); ONS Annual Population Survey, claimant count, ASHE 2025 and BRES 2024 via Nomis; ONS Regional GDHI, 1997 to 2024 (19 August 2026). All data retrieved 19 November 2026; full table references are in the accompanying sources file.

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About the University of Leicester Growth Hub

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The Growth Hub focuses on research and policy insight. Its aims include using research and evidence to produce policy briefings, evidence reviews, consultation findings and evaluation for public bodies, sector organisations and policymakers. Where a question fits the Hub's themes, it can also develop focused work around research, evaluation, consultation, executive education or a funded project.

Source: University of Leicester, About the Growth Hub, https://le.ac.uk/school-of-business/growth-hub/about-the-growth-hub (accessed 19 November 2026).

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