



# **CREATIVE ECONOMY REPORT: 2017 UPDATE**

**ECONOMIC POLICY DEPARTMENT**

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# INTRODUCTION

In 2016 the Cultural and Creative Industries (CCIs) accounted for 7% of the total gross value added (GVA) created by the Maltese economy, up from 6% in 2010 as indicated in the January 2017 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 CCIs continued to grow at 6% in 2016, in line with the performance of the rest of the economy.

In 2016 the CCIs 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 CCIs, employment in full-time equivalent terms is estimated at 5% of total employment. The CCIs increased employment by almost 750 in 2016, following the significant increase of more than 3,600 between 2010 and 2015. During 2016, employment in the CCIs increased by a significant rate of 5%, in line with recent trends. Overall GVA per person employed in the CCIs in 2016 is estimated at €40,900 which is currently higher than what is on average generated in either manufacturing (€33,500) or services (€37,200).

These indicators all point to the growing importance of the CCIs in Malta. They show a dynamic industry which generates growth and jobs. Nevertheless, there is scope to strengthen further the indirect contribution of the CCIs, particularly the linkages with the various other industries in Malta. Earlier Research carried out by the Economic Policy Department within the Ministry for Finance suggests that in general (excluding the arts which were not covered by the study) and with a few exceptions, the CCIs 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.

Whilst the January 2017 report highlighted industry trends until 2015, this update provides an account of the economic performance of the CCIs in 2016. Annual data from 2010 has however been updated with the latest national accounts data.

# METHODOLOGY

The study continues to use the original 2014 Report data as a base. As a result, data for the period 2000 to 2010 remains unchanged from the previous reports. This data was in turn based on detailed information at 4-digit level available from the Structural Business Statistics (SBS). Unfortunately, the current SBS no longer contains detailed sectoral data at 4-digit level for most of the sectors represented in the CCIs. Therefore, to complete this update the aggregate data at 2-digit level from (unpublished) national accounts, made available by National Statistics Office (NSO), was used to update the figures. For a detailed exposition of the representation of the CCI sub-sectors you may wish to refer to the January 2017 update of this report.

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. Nevertheless, in view of the exclusion of the printing of currencies from the definition of the CCIs, this report adjusts the national accounts data accordingly on the basis of published financial accounts of enterprises operating in this sub-industry. The major constraint remains in the aggregation 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. In this context the detailed results at a sub-sector level should be viewed with more caution.

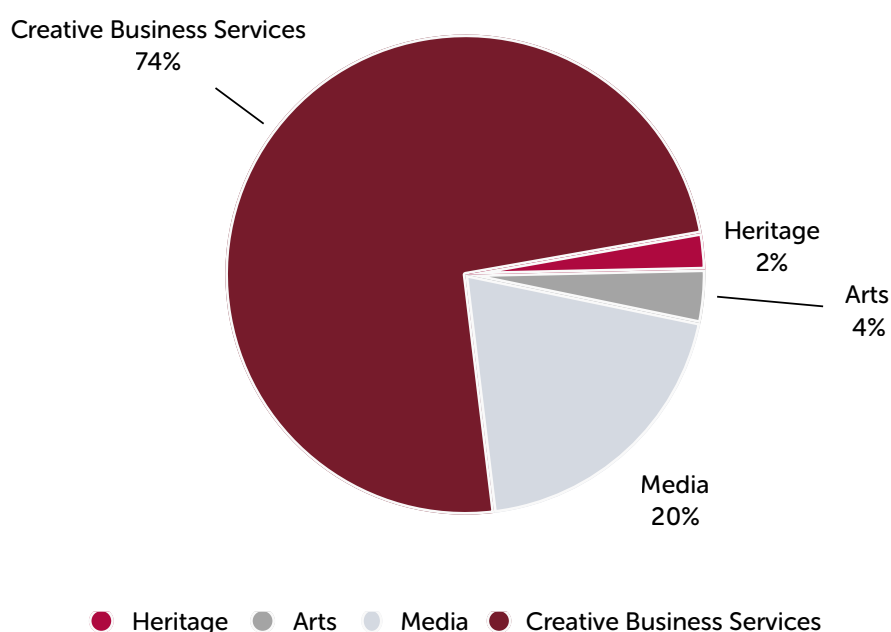
# FINDINGS

In 2016 the CCI's accounted for 7.3% of the total gross value added created by the Maltese economy, up from 6% in 2010. The composition of the CCI's is shown in Figure 1. Since 2010 the CCI's have changed drastically and became more business oriented. This was predominantly marked by the growing share of the Creative Business Services (74% in 2016 compared to 62% in 2010). The Media sector lost its share in the CCI's (from 28% in 2010 to 20% in 2016). Heritage and the Arts also lost their combined share within the CCI's (from 10% in 2010 to 6% in 2016). A more detailed composition is provided in Figure 2, which shows the various sub-sectors making up the CCI's.

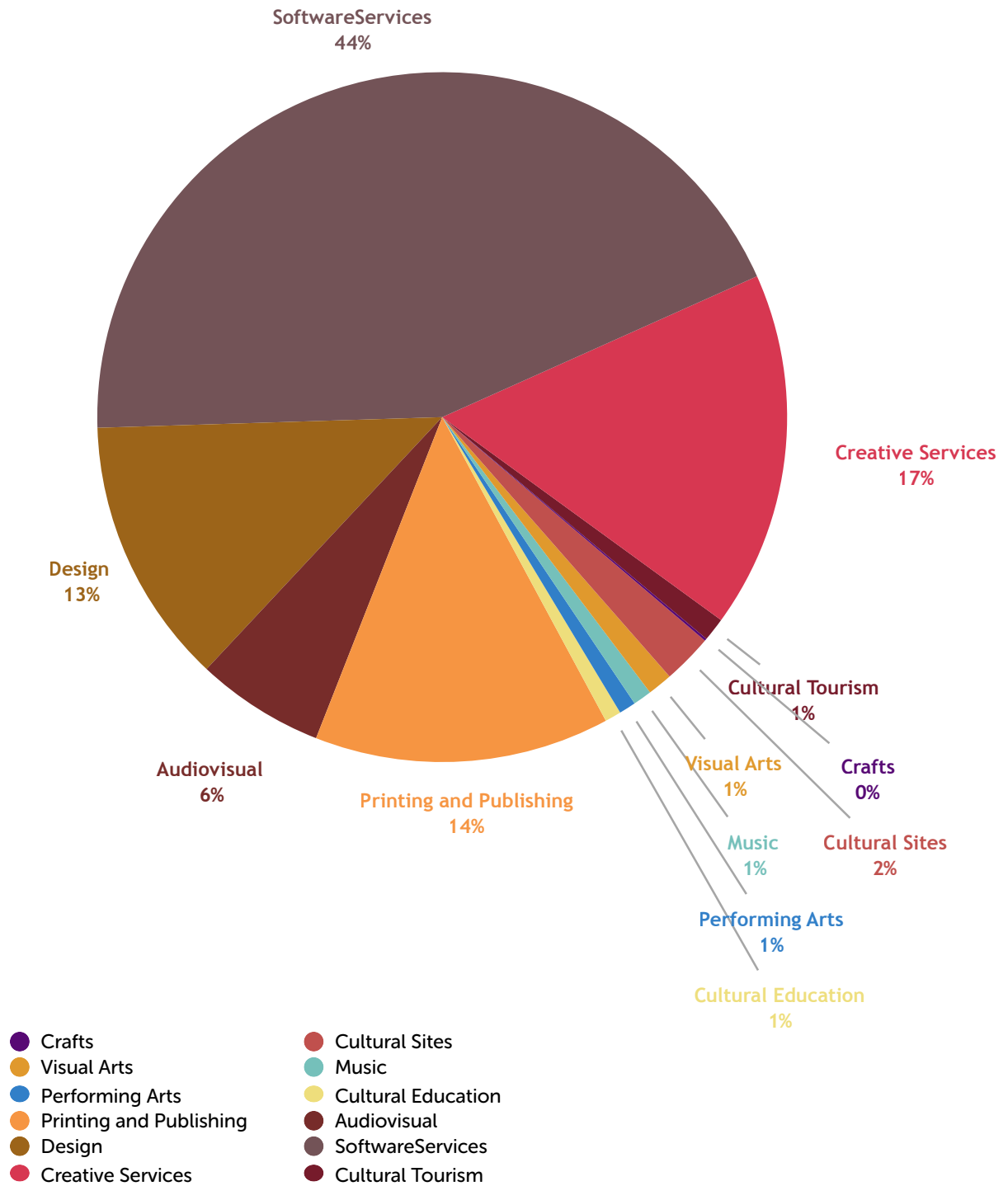
Over the course of the last fifteen years, the CCI's have seen their direct share of the Maltese economy grow by 2.7% indicating that over this period the CCI's have outperformed the rest of the economy. This followed a period of relative decline in performance up to 2007, after which the CCI's almost consistently outperformed the rest of the economy. Figure 3 shows the share of the CCI's since 2001.

The year 2016 was characterised by the further strengthening of growth in the Creative Business Services and a relatively strong performance by the Heritage sub-sector. On the other hand the Arts sub-sector registered a substantial drop in gross value added, reversing much of the growth that this sub-sector has been generating in the past fifteen years. The decline in the Arts in 2016 was exacerbated by the extraordinary increase registered in 2015 which was primarily related to artistic services rendered to the film industry which had recorded a substantial surge during the year in question. In 2016, the film industry returned to a normal level of operations. The media sector has also experienced a decline in gross value added in 2016. Further details are provided in Table 1.

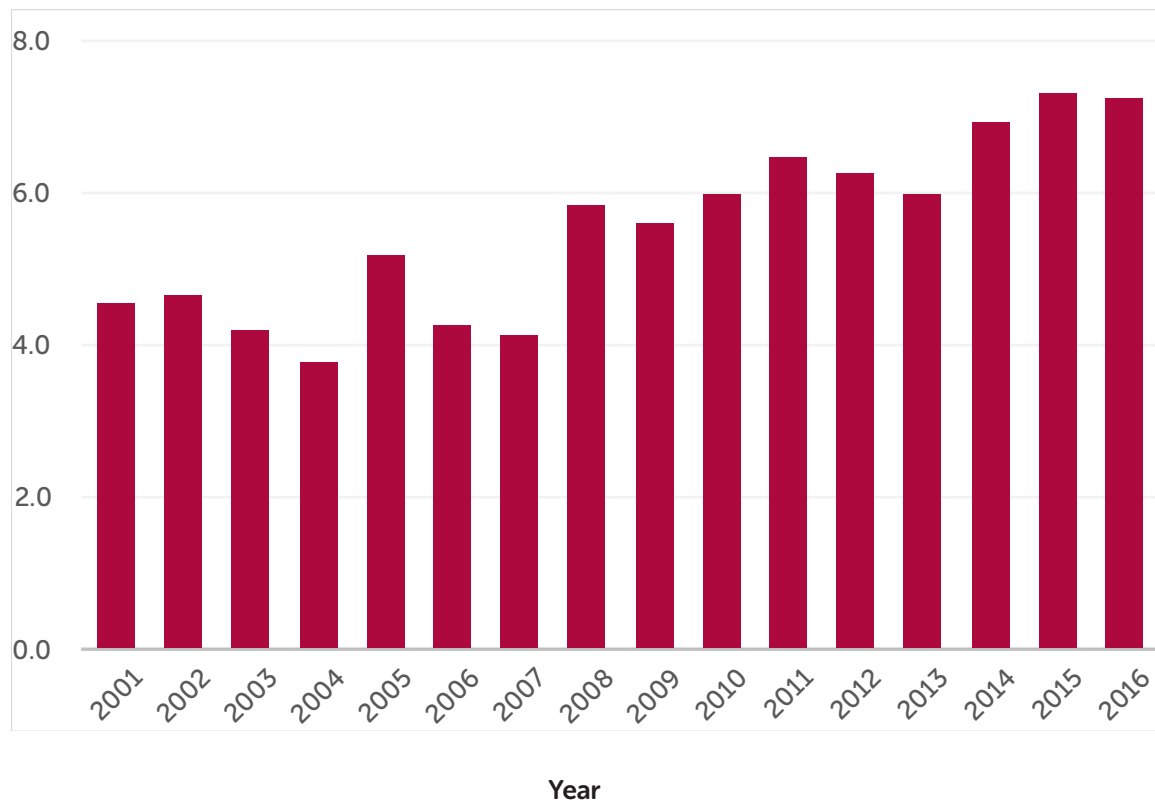
**Figure 1:** Composition of the CCI's in 2016



**Figure 2:** Detailed composition of the CCI in 2016



**Figure 3:** The CCIs as a share of GVA



**Table 1:** Average Annual Growth in GVA

Average Annual Growth in Gross Value Added (%)				
	2000/05	2005/10	2010/15	2016/15
Crafts	-0.9	-10.9	-6.6	9.8
Cultural Sites	:	-2.6	10.0	7.8
Heritage	47.1	-3.6	8.8	7.9
Visual Arts	24.2	11.6	-	-
Music	0.1	30.9	-	-
Performing Arts	-4.1	7.3	-	-
Cultural Education	-	-	7.1	6.2
Arts	5.0	17.6	12.0	-46.0
Printing and Publishing	0.4	4.0	4.0	-2.3
Audio-visual	0.0	7.0	12.0	-12.1
Media	0.3	4.7	6.2	-5.5
Design	-	2.1	7.3	10.7
Software Services	32.1	19.3	14.9	17.5
Creative Services	145.5	7.3	19.1	17.2
Cultural Tourism	-	-	-2.7	-9.7
Creative Business Services	57.6	12.2	13.5	15.7
CCI	17.3	9.4	11.4	6.4

The employment performance in 2016 was also relatively strong though it generally lagged behind the growth in gross value added in reflection of labour productivity gains. The CCIs created new jobs as employment increased by almost 750 in 2016, following the significant increase in employment of more than 3,600 registered between 2010 and 2015. Employment in the CCIs increased by a significant rate of 5.1% in 2016, in line with recent trends. The strongest employment growth continued to be registered in the Creative Business Services which recorded a growth of 11.8%. It is notable that despite the decline in the GVA performance in the Arts sector, employment still registered a notable increase of 8%. Further details are provided in Table 2.

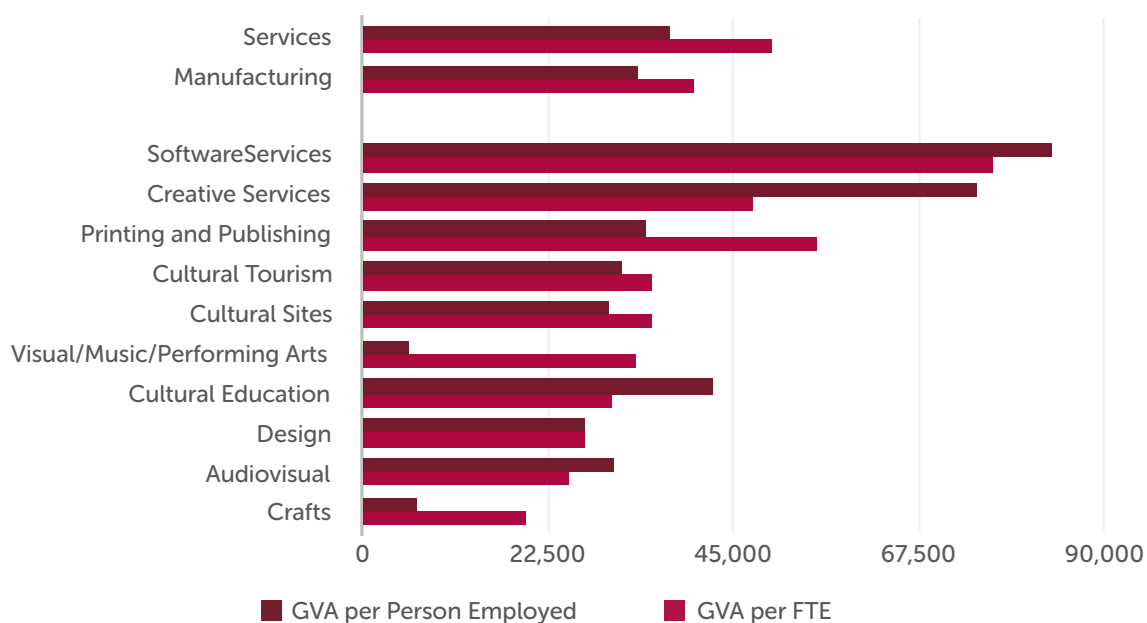
**Table 2:** Average Annual Growth in Employment

Average Annual Growth in Employment (%)				
	2000/05	2005/10	2010/15	2016/15
Crafts	-2.7	1.6	-2.4	9.8
Cultural Sites	:	-7.8	2.0	7.8
Heritage	42.5	-6.1	1.1	7.9
Visual Arts	16.3	8.7	-	-
Music	2.6	17.6	-	-
Performing Arts	-1.1	-6.8	-	-
Cultural Education	-	-	2.3	6.2
Arts	3.8	5.5	6.5	-46.0
Printing and Publishing	2.2	3.9	1.2	-2.3
Audio-visual	2.8	-4.1	3.5	-12.1
Media	2.4	1.2	1.9	-5.5
Design	-	-2.1	6.1	10.7
Software Services	11.2	8.0	13.2	17.5
Creative Services	75.3	1.3	8.8	17.2
Cultural Tourism	-	-	-3.5	-9.7
Creative Business Services	44.3	2.6	8.7	15.7
CCI	13.6	2.1	5.8	6.4

Productivity in the CCIs is high relative to the other sectors of the Maltese economy. Every person employed in the CCIs generates on average €40,900, which is currently higher than what is on average generated in either manufacturing (€33,500) or services (€37,200). The performance varies significantly by sub-sector as shown in Figure 4. 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.

Indeed, the figures used above, which are consistent with the methodology employed in the original 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. This information is also presented in Figure 4. 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 software services, 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. The main difference in the assessment when utilising FTEs is however noted in the Printing and Publishing sub-sector which now displays a higher productivity relative to the rest of the economy and becomes the second most productive sector among the CCIs.

**Figure 4:** Productivity per person and per FTE in 2016



**Table 3:** Average Annual Growth in GVA per person employed

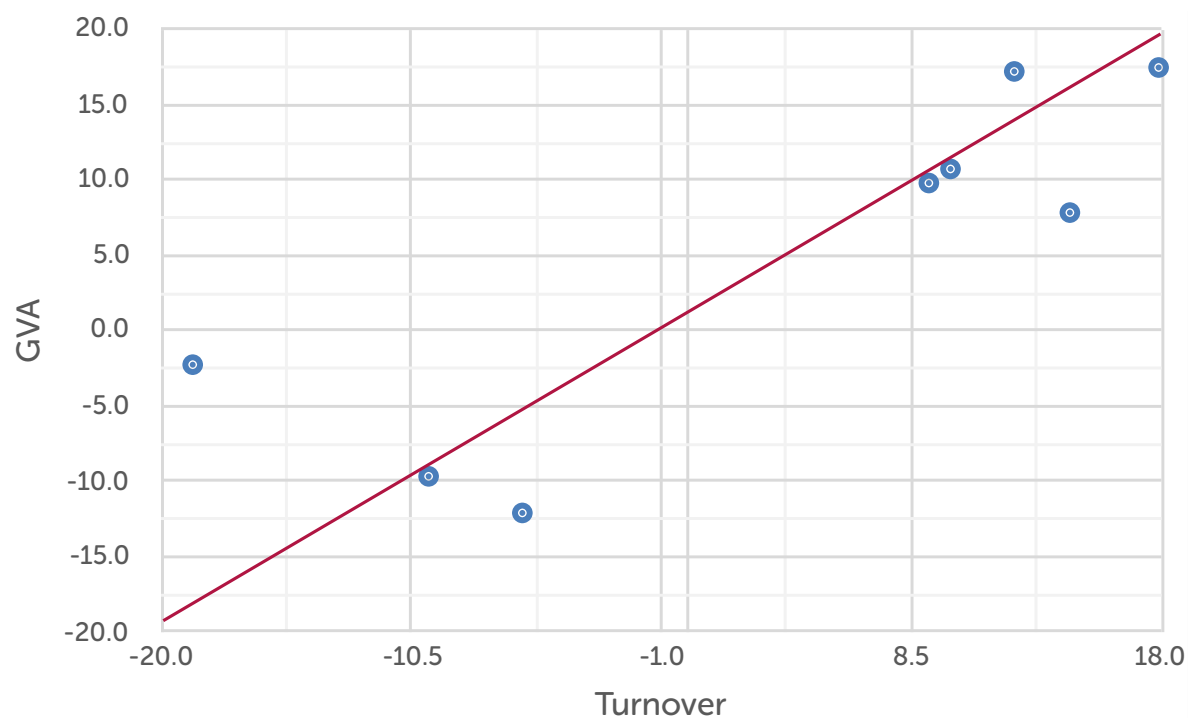
Average Annual Growth in GVA per Person Employed (%)				
	2000/05	2005/10	2010/15	2016/15
Crafts	1.9	-12.3	-4.3	9.9
Cultural Sites	:	5.6	7.9	7.4
Heritage	3.2	2.7	7.7	8.3
Visual Arts	6.8	2.6	-	-
Music	-2.4	11.3	-	-
Performing Arts	-3.1	15.0	-	-
Cultural Education	-	-	4.7	4.7
Arts	1.2	11.5	5.2	8.8
Printing and Publishing	-1.8	0.1	2.7	2.5
Audio-visual	-2.7	11.6	8.2	10.5
Media	-2.1	3.5	4.2	4.8
Design	-	4.3	1.1	-0.9
Software Services	18.8	10.5	1.4	-2.0
Creative Services	40.1	5.9	9.4	8.0
Cultural Tourism	-	-	0.8	4.0
Creative Business Services	9.2	9.4	4.4	1.6
CCI	3.3	7.2	5.3	4.0

Figure 5 shows the relationship between growth in turnover and value added with the 45-degree line representing the degree to which the two variables are moving together. For 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.

Sub-sectors above the line represent those that have registered a stronger increase (or weaker decline) than turnover, indicating that supply-side factors may have supported further the growth of the industry (namely the case of Creative Services) or mitigated the loss in demand (namely the case of Printing and Publishing). Sub-sectors below the line represent those that have registered a weaker increase (or stronger decline) than turnover, indicating that supply-side factors may have partially undermined the growth of the industry (namely the case of cultural sites) or exacerbated the loss in demand (namely the case of Audiovisuals and the Arts<sup>1</sup>).

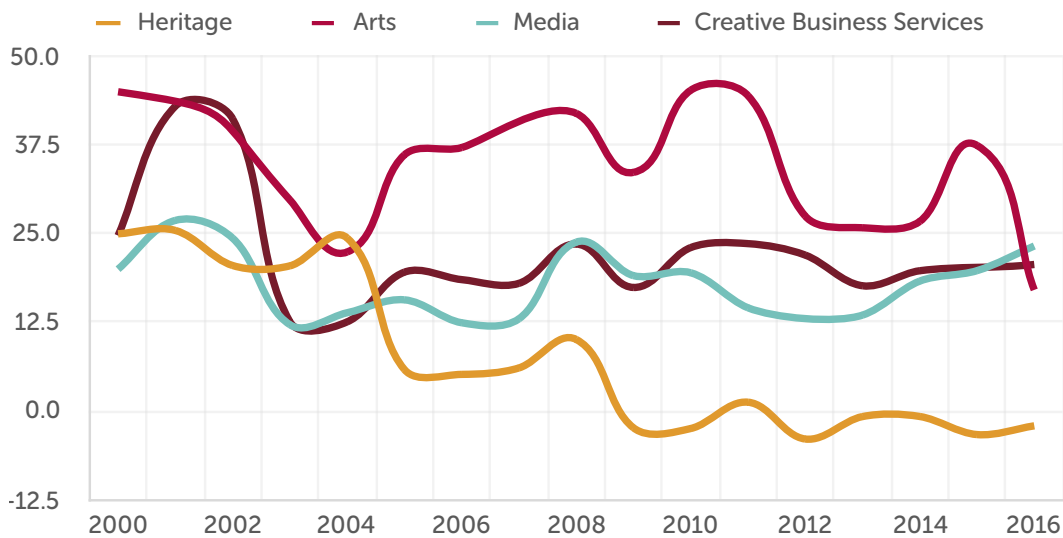
Meanwhile the growth in compensation of employees has also, by and large, matched the growth in turnover such that in general profit margins (Figure 6) have been maintained between 2010 and 2015. The major exception relates to the Arts, which experienced a drop in profit margins as the decline in turnover was not matched by labour shedding or wage declines such that profits waned. A look at the performance of this sub-sector over the last fifteen years suggests that the margins in the Arts are relatively high but can experience temporary periods of increased volatility. 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 5:** Growth in turnover and value added in 2016



<sup>1</sup> The Arts sub-sector registered a decline of 6.6% in turnover and of 46% in gross value added. It is not shown in Figure 5 as it represents a substantial outlier.

**Figure 6:** Profit Margins



## CONCLUSIONS & WAY FORWARD

This report provides an overview of the developments of the CCIs in 2016, thus updating the analysis of the sector provided in the CCI Report published in January 2017. Whilst the very strong performance registered in previous years has slowed down, it generally remained in line with the strong economic performance registered by the rest of the economy in general. The major exception relates to the Arts which has recorded a decline in gross value added, turnover and profitability, though this is explained by the return to normal activity within the film industry in 2016, following a surge in activity in 2015. Meanwhile, the CCIs continued to be dominated by the strong double-digit growth in Software Services, Creative Services and Design, which continue to cement the growing share of business-oriented CCIs.

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.