



# **CREATIVE ECONOMY REPORT: 2018 UPDATE**

## **ECONOMIC POLICY DEPARTMENT**

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# ABSTRACT

This report updates the Culture and Creative Industry Report published in January 2018 by the Economic Policy Department and contains an update of the economic evaluation. This update is based on recent national accounts data and closely follows the earlier report including the adjustment to exclude the impact of the printing of currency included in the national accounts data. This adjustment has been carried out outside the realm of national accounts as produced by NSO and utilising data from the financial statements of companies operating in this sector. In the absence of financial data for the last three quarters of 2016, estimates of the currency printing sub-industry were based on the performance of these companies on the international market as portrayed by published financial statements. Due to this limitation, data for the printing and publishing sub-sector is to be considered highly provisional. In 2017, CCI over this period have outperformed the rest of the economy and increased by 12.2%. As a result, the share of the CCIs in the total economy increased by 0.2% points to reach 7.9% of total gross value added and 6.5% of gainful employment. The positive performance supported the growth in employment, productivity and profit margins.

# INTRODUCTION

In 2017, the Culture and Creative Industries accounted for 7.9% of the total gross value added (GVA) created by the Maltese economy, up from 6% in 2010. 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 expand, reaching a growth rate of 12.2% in 2017, thus outperforming the rest of the economy.

In 2017, the CCIs also accounted for 6.5% of total full-time and part-time gainful employment. The CCIs increased employment by almost 926 in 2016 and 1,153 in 2017, following the significant increase of more than 3,600 between 2010 and 2015. Employment in the CCIs increased by a significant rate of 7.3% in 2017, in line with recent trends.

Overall, gross value added per person employed in the CCIs in 2016 is estimated at €45,700 which is currently higher than what is on average generated in either manufacturing (€35,300) or services (€44,900).

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 further strengthen 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 2018 Report highlighted industry trends until 2016, this update provides an account of the economic performance of the CCIs in 2017. 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 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 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 closely follows 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

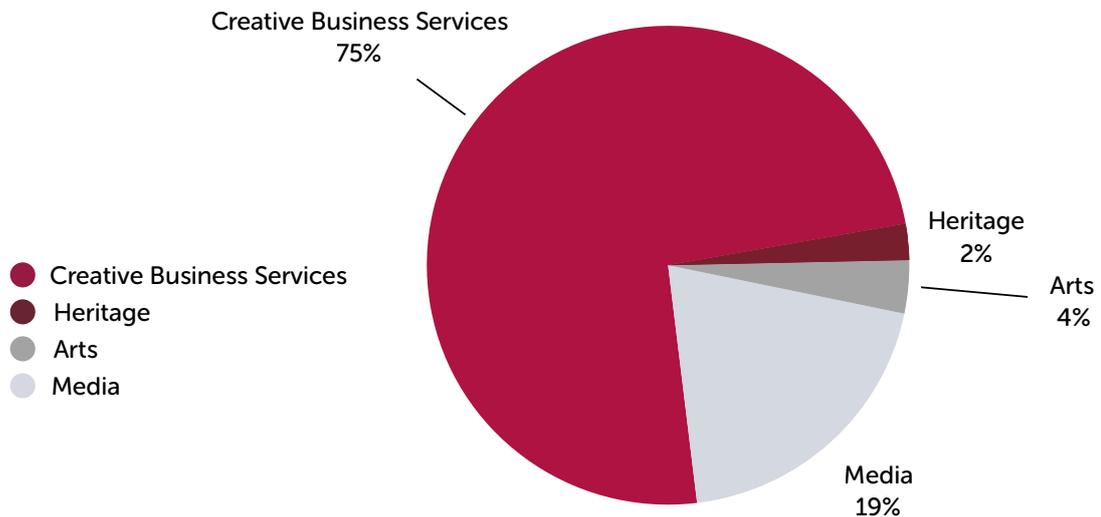
In 2017, the Culture and Creative Industries accounted for 7.9% of the total gross value added created by the Maltese economy, up from 6% in 2010. The composition of the CCIs is shown in Chart 1. Since 2010 the CCIs have changed drastically and became more business oriented. This was predominantly marked by the growing share of the Creative Business Services (75% in 2016 compared to 62% in 2010). The Media sector lost its share in the CCIs (from 28% in 2010 to 19% in 2016). Heritage and the Arts also lost their combined share within the CCIs (from 10% in 2010 to 6% in 2016). A more detailed composition is provided in Chart 2, which shows the various sub-sectors making up the CCIs.

Over the course of the last sixteen years, the CCIs have seen their direct share of the Maltese economy grow by 3.3 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. Chart 3 shows the share of the CCIs since 2001.

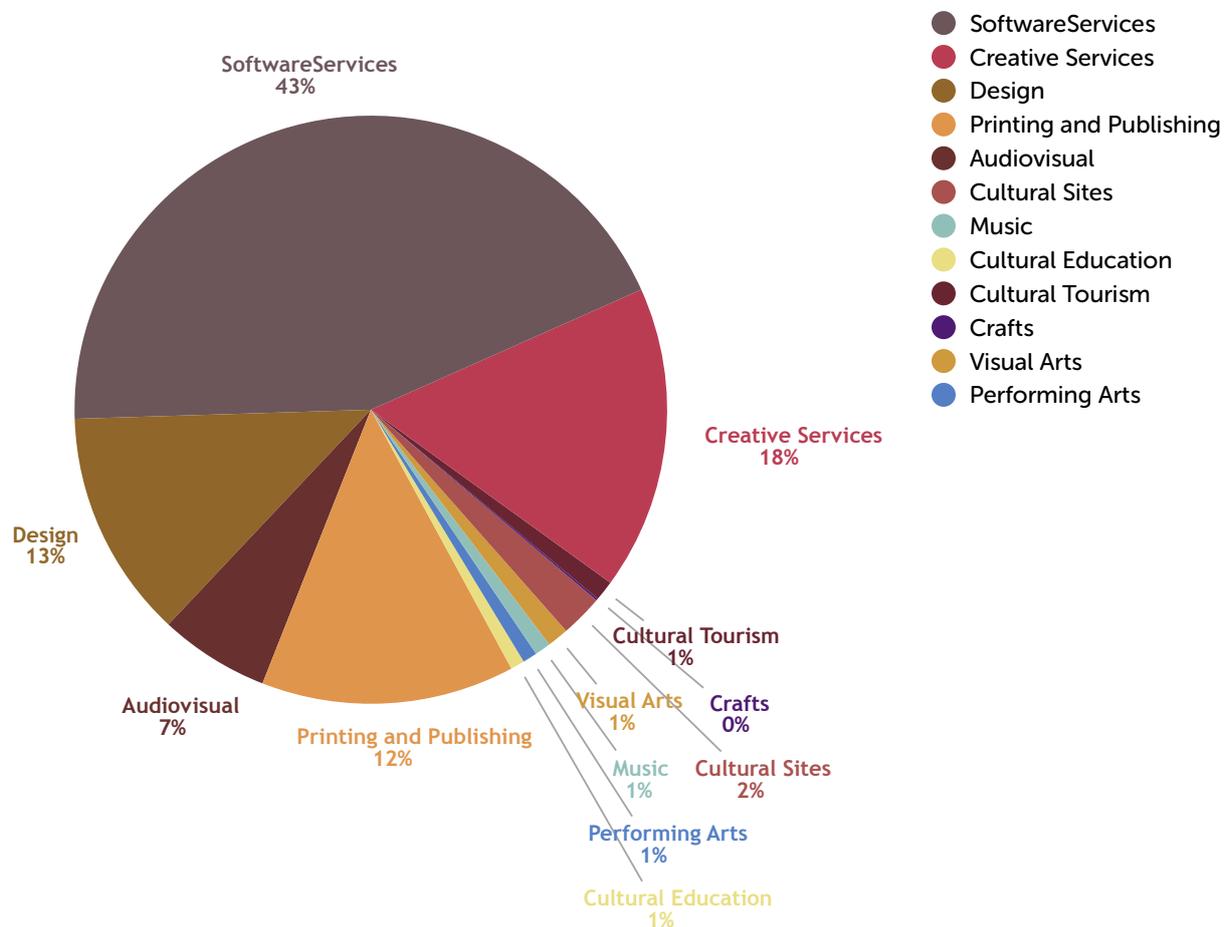
The year 2017 was characterised by the further strengthening of growth in the Creative Business Services, with the positive performance shared by all sectors within the CCIs with the exception of the audio-visual sector which registered its second, albeit more moderate, consecutive decline since 2015. On the other hand, the Arts sub-sector registered a strong growth of 19.4% in gross value added. This represents the strongest growth among the sub-sectors of the CCIs, but only represented a partial recovery following the previous year's decline. It is pertinent to note that 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. The media sector has also experienced an increase in gross value added of more than 8% in 2017. Meanwhile, the creative business services registered another year of double-digit growth rates of 13.2%. Further details are provided in Table 1.

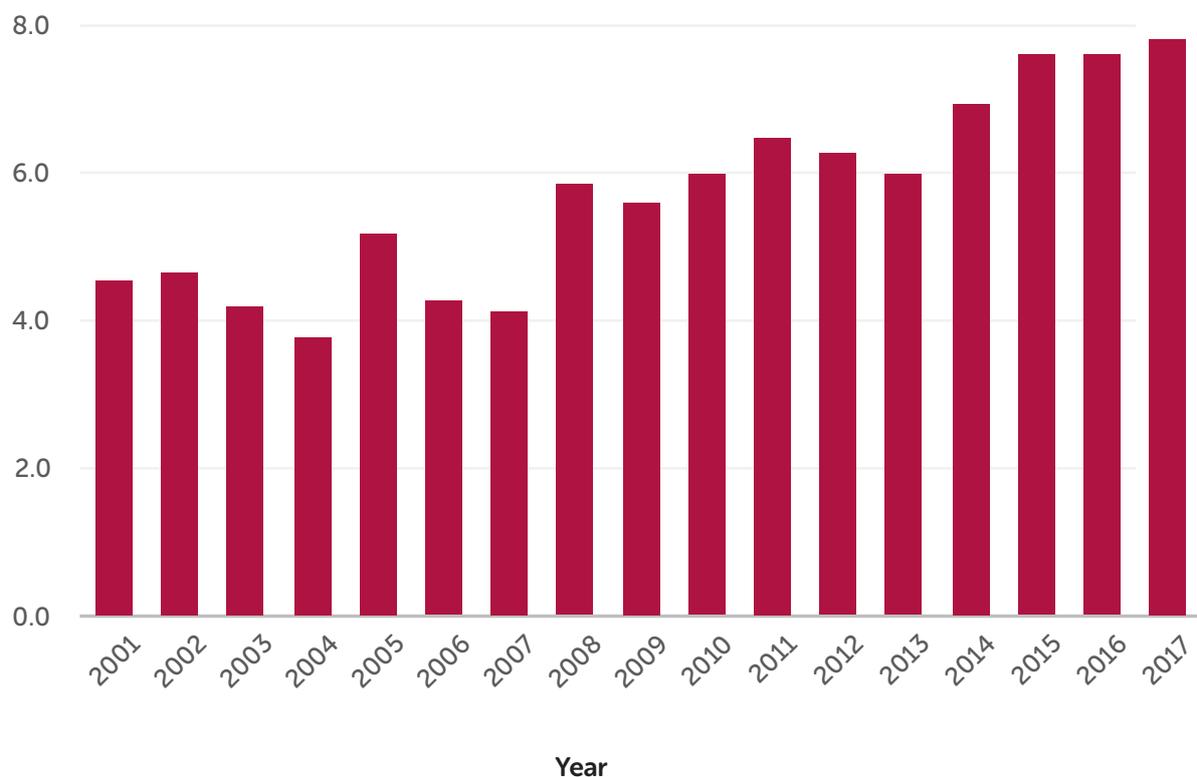
**Chart 1:** Composition of the CCI in 2017



**Chart 2:** Detailed composition of the CCI in 2017



**Chart 3:** The CCIs 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	2016/15	2017/16
Crafts	-0.9	-10.9	0.0	19.3	9.0
Cultural Sites	:	-2.6	10.1	7.6	2.1
Heritage	47.1	-3.6	9.3	8.3	2.5
Visual Arts	24.2	11.6	-	-	-
Music	0.1	30.9	-	-	-
Performing Arts	-4.1	7.3	-	-	-
Cultural Education	-	-	7.0	5.5	7.6
Arts	5.0	17.6	13.0	-43.9	19.4

Average Annual Growth in Gross Value Added (%)					
Printing and Publishing	0.4	4.0	4.1	-10.8	15.7
Audio-visual	0.0	7.0	19.6	-8.5	-2.8
Media	0.3	4.7	8.8	-9.9	8.2
Design	-	2.1	9.9	15.8	10.7
Software Services	32.1	19.3	15.9	18.6	12.6
Creative Services	145.5	7.3	21.8	17.6	17.5
Cultural Tourism	-	-	-1.0	-9.3	1.9
Creative Business Services	57.6	12.2	15.3	17.3	13.2
CCI	17.3	9.4	13.3	6.6	12.2
excl. CBS	2.8	5.6	9.7	-15.8	9.3

The employment performance in 2017 was also relatively strong, even 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 around 1,150 in 2017. Employment in the CCIs increased by a significant rate of 7.3% in 2017, in line with recent trends. The strongest employment growth continued to be registered in the Arts sector which recorded growth in excess of 16%, followed by the Creative Business Services which recorded a growth of almost 11%. Further details are provided in Table 2.

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

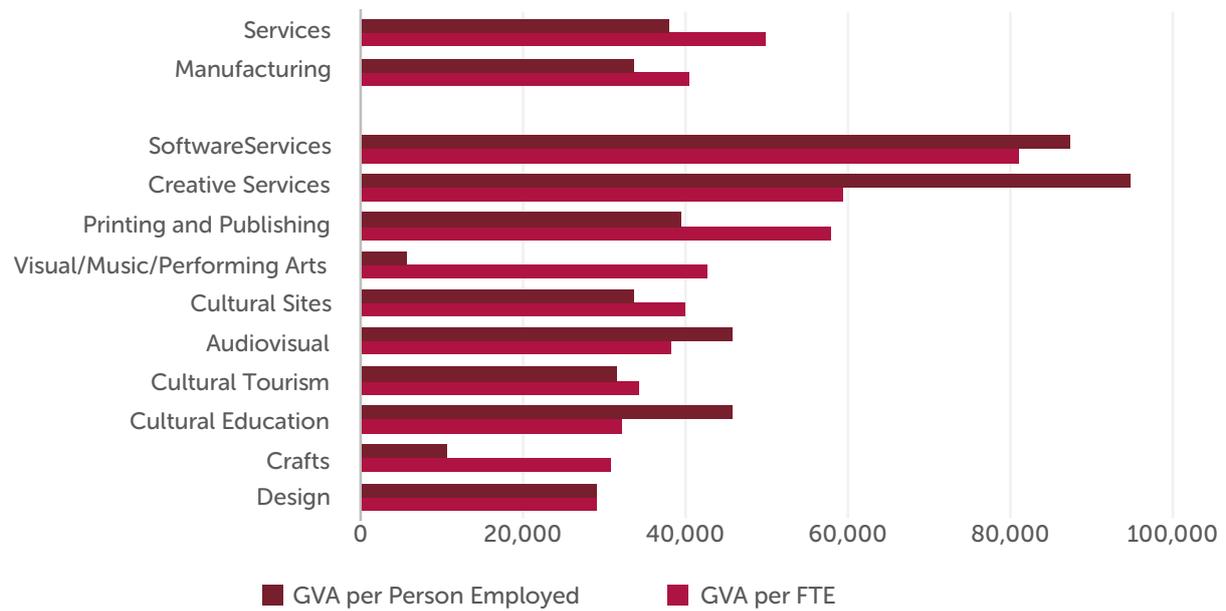
Average Annual Growth in Employment (%)					
	2000/05	2005/10	2010/15	2016/15	2017/16
Crafts	-2.7	1.6	-1.8	-1.9	-1.4
Cultural Sites	:	-7.8	2.0	6.3	-6.7
Heritage	42.5	-6.1	1.2	4.8	-5.8
Visual Arts	16.3	8.7	-	-	-
Music	2.6	17.6	-	-	-
Performing Arts	-1.1	-6.8	-	-	-
Cultural Education	-	-	1.8	-0.4	2.4
Arts	3.8	5.5	6.5	8.0	16.2

Average Annual Growth in Employment (%)					
Printing and Publishing	2.2	3.9	0.0	-8.5	-4.0
Audio-visual	2.8	-4.1	4.4	-3.3	-9.9
Media	2.4	1.2	1.3	-6.8	-6.1
Design	-	-2.1	7.6	9.6	12.1
Software Services	11.2	8.0	13.5	19.1	12.1
Creative Services	75.3	1.3	8.4	8.2	6.0
Cultural Tourism	-	-	-2.3	3.0	7.5
Creative Business Services	44.3	2.6	9.4	12.8	10.9
CCI	13.6	2.1	5.9	6.2	7.3
	5.0	1.7	3.2	-0.1	3.4

Productivity in the CCIs is high relative to the other sectors of the Maltese economy. Every person employed in the CCIs generates on average €45,700, which is currently higher than what is on average generated in either manufacturing (€35,270) or services (€40,700). 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, even 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 Chart 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 contained 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 third most productive sector among the CCIs.

**Chart 4:** Productivity per person and per FTE in 2017



**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	2017/16
Crafts	1.9	-12.3	1.9	21.6	10.6
Cultural Sites	:	5.6	8.0	1.2	9.4
Heritage	3.2	2.7	8.0	3.4	8.8
Visual Arts	6.8	2.6	-	-	-
Music	-2.4	11.3	-	-	-
Performing Arts	-3.1	15.0	-	-	-
Cultural Education	-	-	5.1	5.9	5.1
Arts	1.2	11.5	6.1	-48.1	2.8
Printing and Publishing	-1.8	0.1	4.0	-2.5	20.5
Audio-visual	-2.7	11.6	14.6	-5.4	7.9
Media	-2.1	3.5	7.4	-3.3	15.2

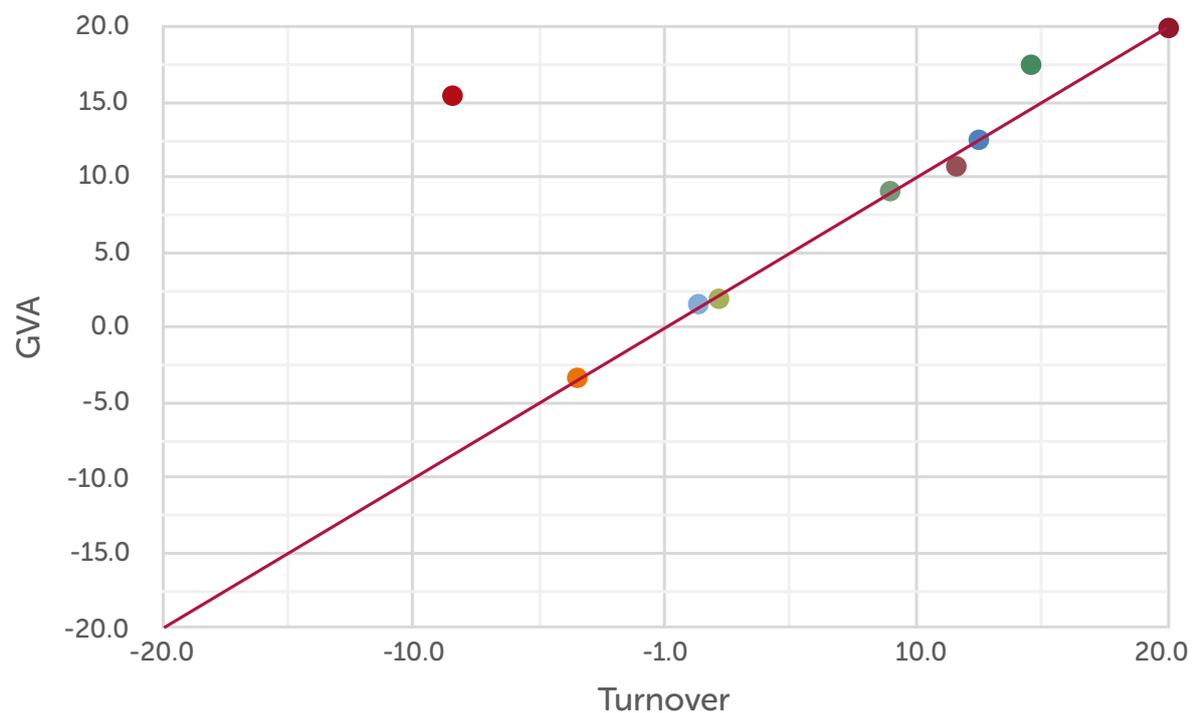
Average Annual Growth in GVA per Person Employed (%)					
Design	-	4.3	2.1	5.7	-1.2
Software Services	18.8	10.5	2.1	-0.4	0.5
Creative Services	40.1	5.9	12.4	8.8	10.9
Cultural Tourism	-	-	1.3	-12.0	-5.1
Creative Business Services	9.2	9.4	5.4	4.0	2.1
CCI	3.3	7.2	5.3	4.0	
Manufacturing	-	-	-1.5	2.8	8.6
Services	-	-	5.1	1.8	5.7

As indicated earlier, 2017 was characterised by further improvements in labour productivity (measured in GVA per person employed) with the growth reaching 4.6%. The Heritage and Media sectors all recorded a strong increase in productivity that exceeded 8% and outperformed the rest of the economy. Nevertheless, productivity in the Arts and the Creative Business Services sub-sectors fell below 3%, as employment growth largely kept pace with the growth in gross value added. Table 3 indicates the productivity trends in the various sub-sectors of the CCIs.

Chart 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. Most sub-sector performance were 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.

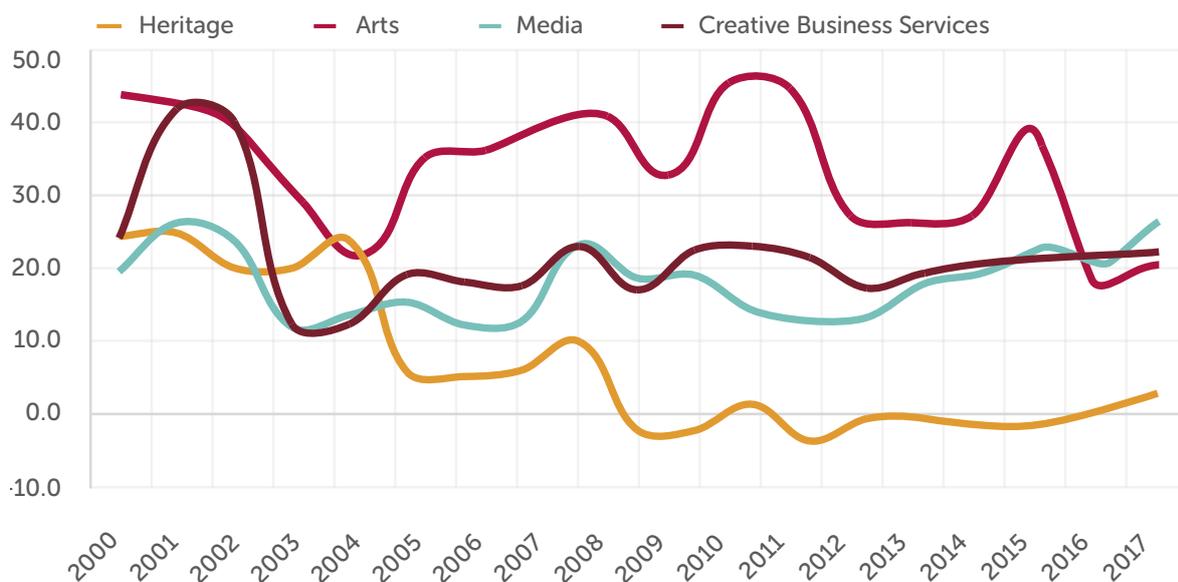
Sub-sectors above the line represent those that have registered a stronger increase (or weaker decline) in gross value added than turnover, indicating that supply-side factors may have further supported the growth of the industry (namely the case of Creative Services) or mitigated the loss in demand (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 or exacerbated the loss in demand. No such instances were evident in 2017.

**Chart 5:** Growth in turnover and value added in 2016



Profit margins have generally improved for most CCIs, meaning that the growth in turnover generally exceeded the growth in the wage bill. Creative services was the only exception to this rule as profit margins remained largely stable from the previous year. Profit margins have generally converged towards the mid-20s as a percentage of turnover. The heritage sub-sector is the major exception to this rule, but even here, a marginal profit margin was evident in 2017, compared to the marginal losses characterising this sub-sector since 2009.

**Chart 6:** Profit Margins



## CONCLUSIONS

This report provides an overview of the developments of the CCIs in 2017, thus updating the analysis of the sector provided in the CCI Report published in January 2018. The sector has generally outperformed the rest of the economy both in terms of growth in gross value added and employment. The positive performance also supported higher profit margins in 2017. The decline registered in 2016 in the Arts has also been partly reversed, even though the audio-visual sector registered another decline, albeit more moderate than in 2016. 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. Nevertheless, even if this sub-sector is excluded, the more traditional CCIs still recorded a strong growth of 9.3%, effectively mirroring the average growth in the rest of the economy.

## WAY FORWARD

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.