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THE SUNDAY TIMES

Productivity

What it is, why it matters, and how we can break out of the current malaise

What is productivity?

In simple terms, the amount we get out for what we put in, in terms of labour and capital.

Or, in a bit more detail, on the main measure

Labour productivity

The efficiency of the UK workforce calculated as output per worker, output per job and output per hour. Labour productivity is an important factor in determining the productive potential of the economy. Countries with strong labour productivity growth tend to benefit from high rates of growth and low inflation. **Source: ONS**

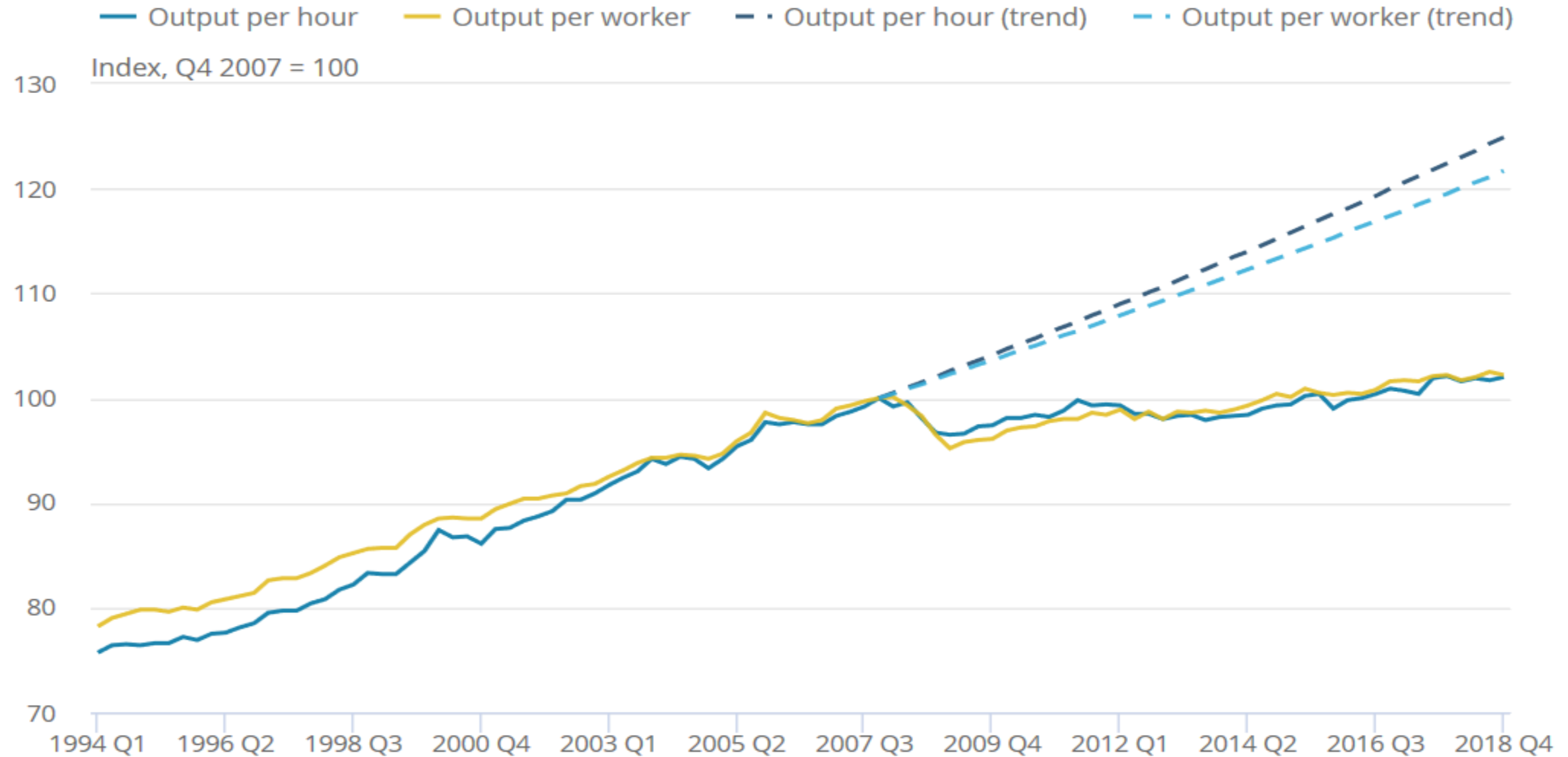
And it could hardly be more important

“Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.” **Paul Krugman**

What normally happens

Over the long-term, UK productivity has risen by an average of 2% a year, which means that the level of productivity doubles roughly every 35 years. That has been the basis of our rising prosperity.

But no productivity growth for the past decade



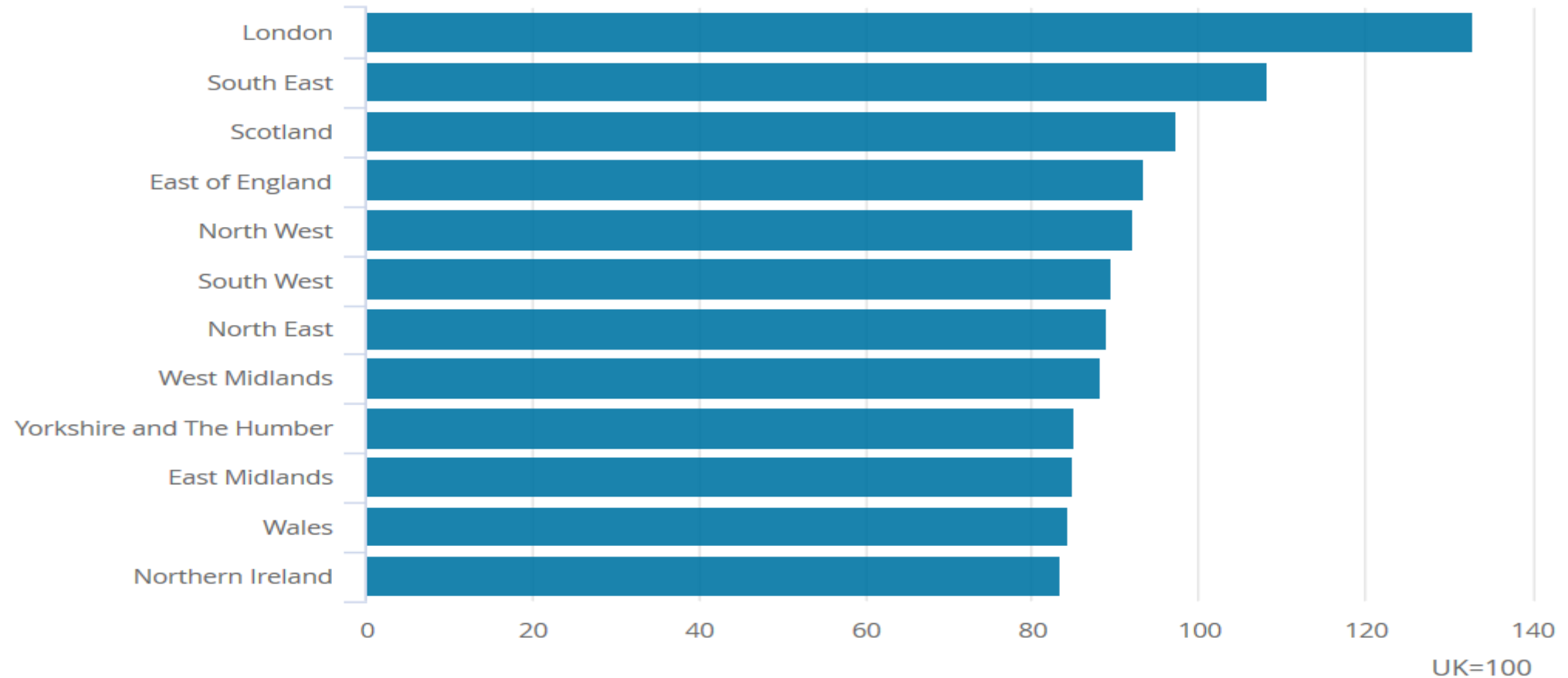
Though employment has been strong

UK employment rate (all people aged 16 to 64 years), seasonally adjusted, January to March 2014 to January to March 2019



London leads the way on productivity

**Labour productivity (gross value added per hour worked)
by NUTS1 region, unsmoothed, current prices, 2017**



How does the South East LEP compare? (1)

Gross value-added (GVA) per hour worked, 2017:

- South East LEP, £31.60.
- UK average, £33.60.
- London, £44.90.

How does the South East LEP compare? (2)

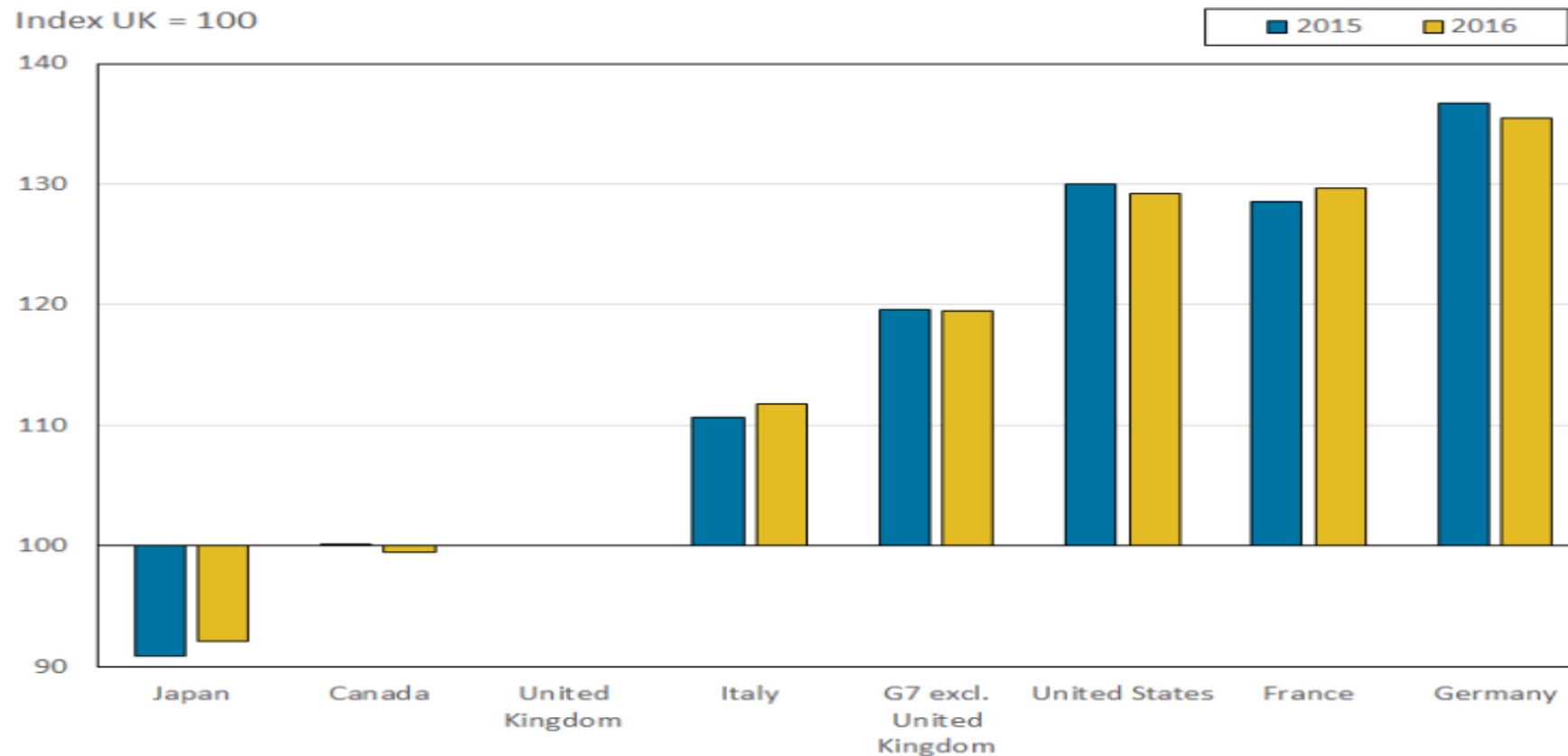
Gross value-added (GVA) per filled job, 2017:

- South East LEP, £49,692.
- UK average, £54,330.
- London, £77,144.

Britain's a long way behind internationally

Gross domestic product per hour worked, G7 countries

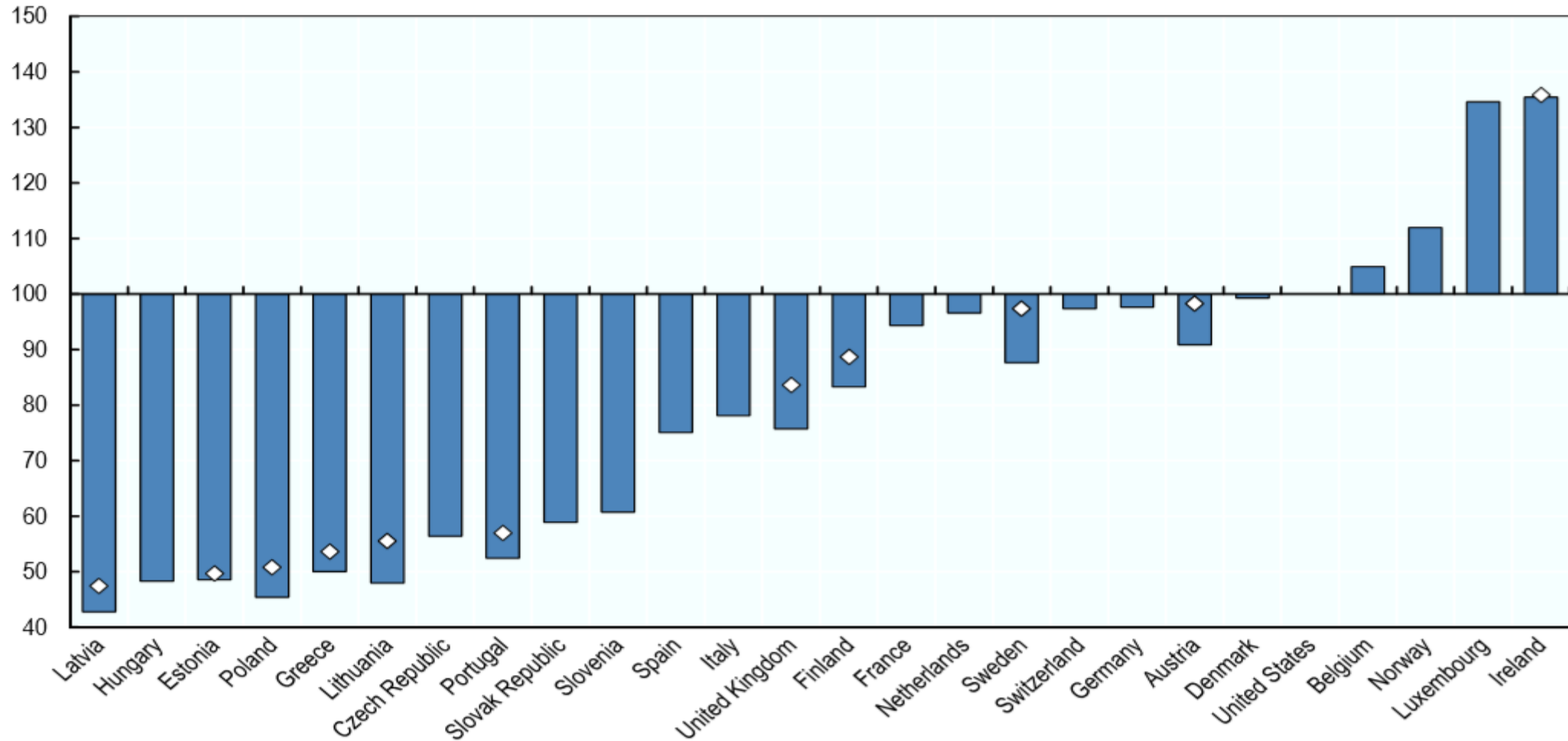
2015 to 2016



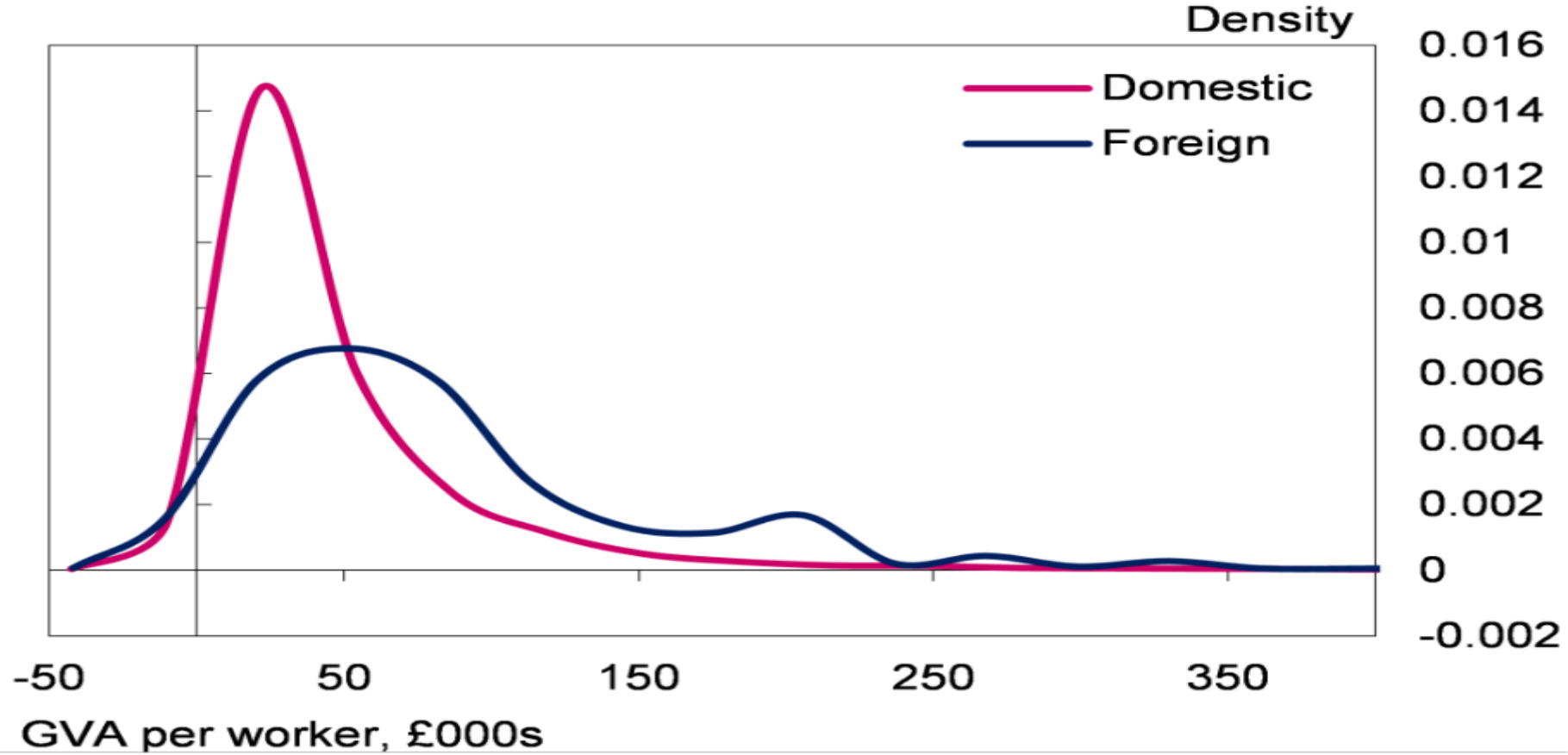
Though a bit better if we adjust hours worked

GDP per hour, Index
United States = 100

■ GDP per hour worked (Average hours worked per person sourced from country's national accounts)
◇ GDP per hour worked (Average hours worked per person computed by OECD with the simplified component method)

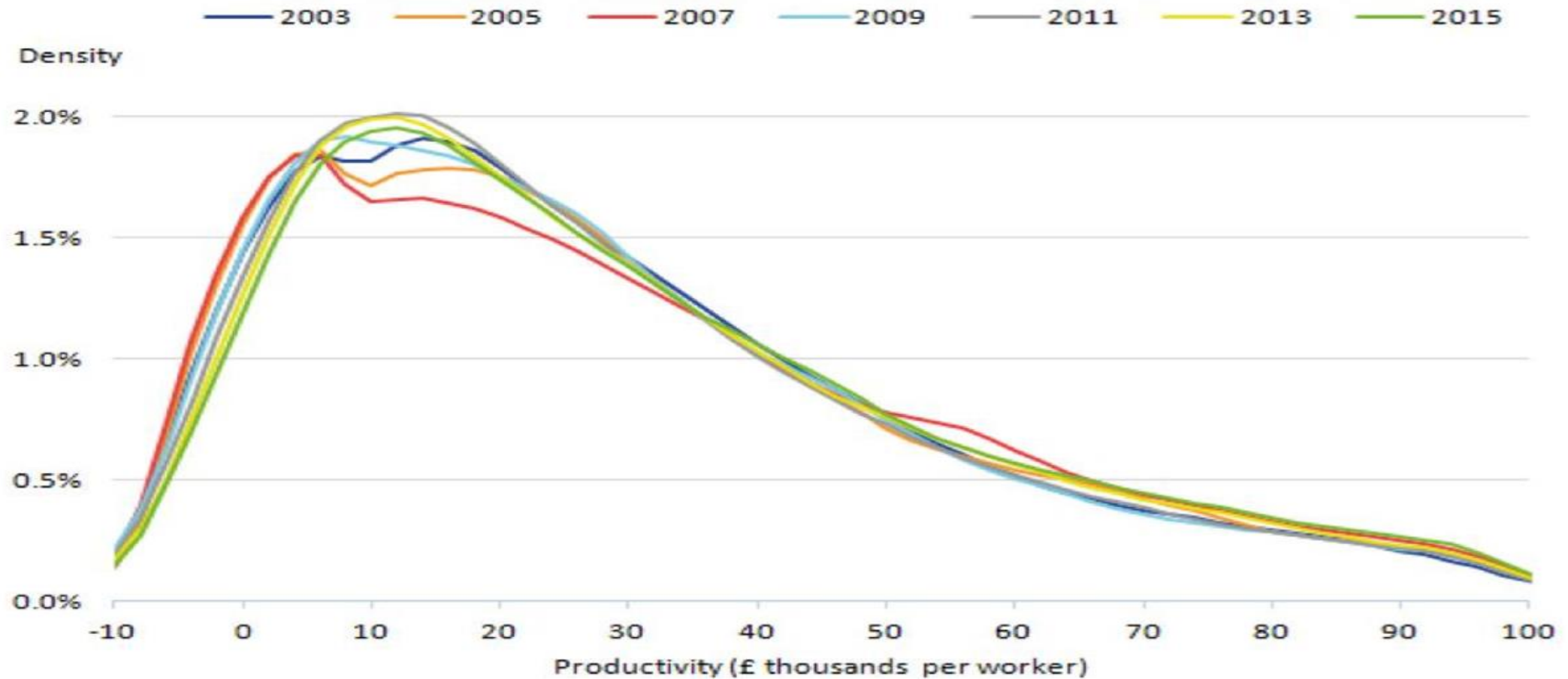


Foreign firms in the UK have higher productivity



Source: ONS research datasets.

And there's a long tail of low productivity



Distribution of real firm-level productivity, Great Britain, 2003-2015 (ONS)

How do we get productivity growing again?

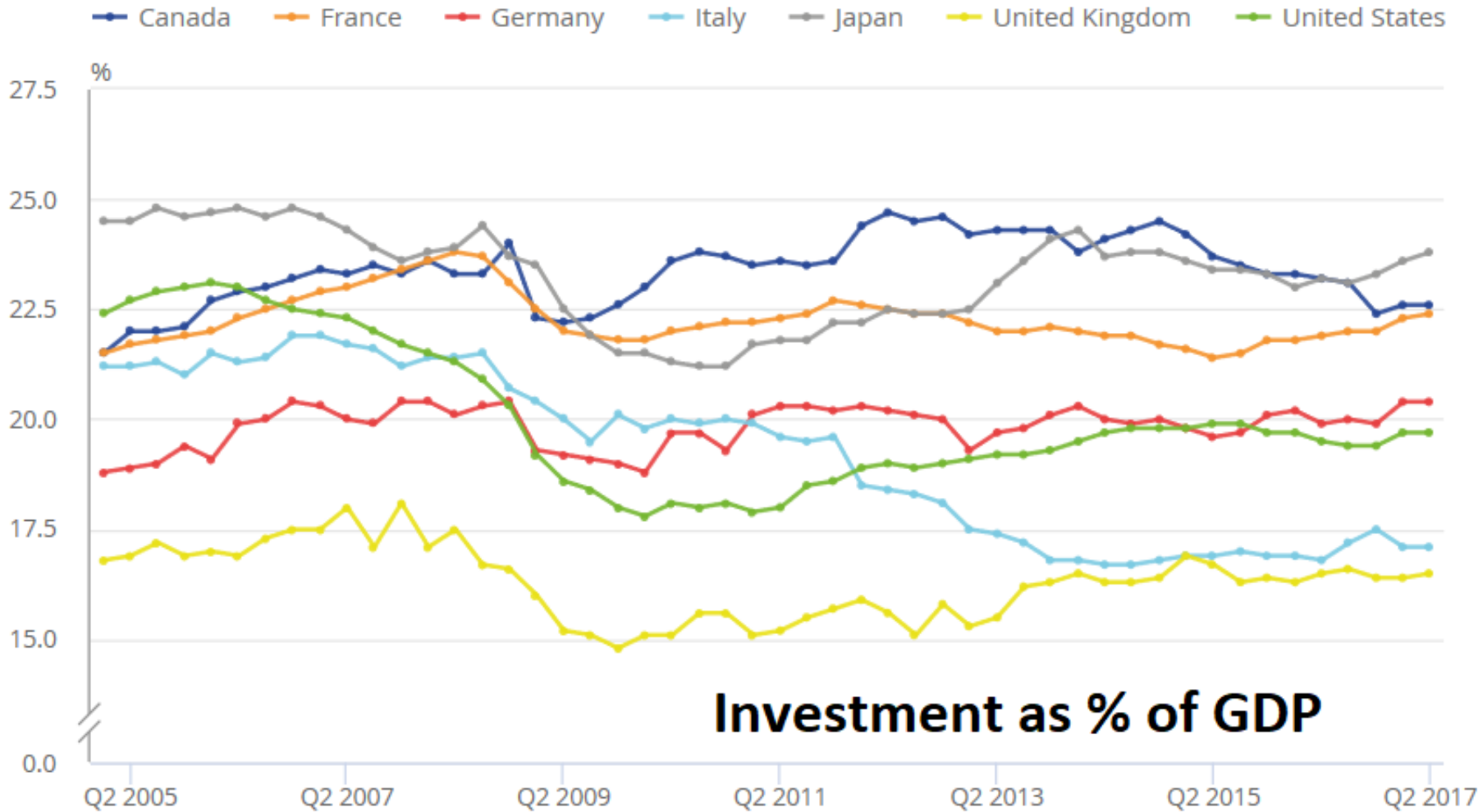


The keys to raising productivity

Three 'I's and an 'S'

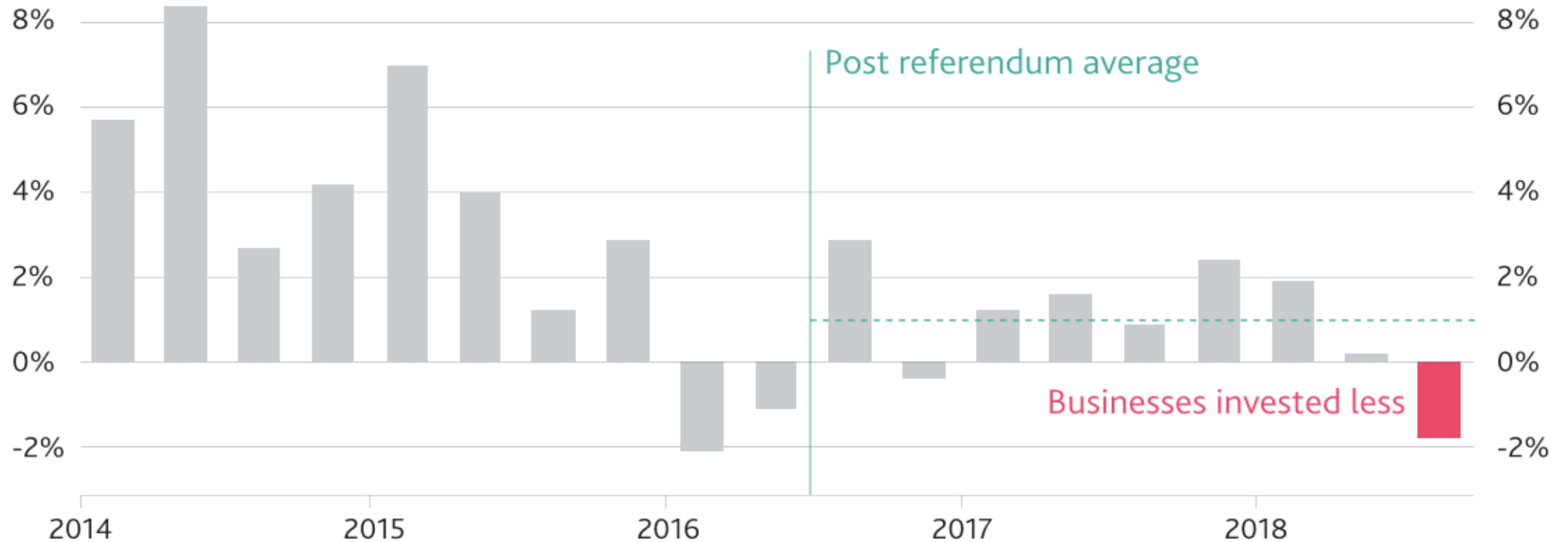
- Investment.
- Infrastructure.
- Innovation.
- Skills.

The UK has been a low investor



The key is to unlock business investment

Business investment growth (% yearly change)



Plenty of reasons to invest

- A generous annual investment allowance of £1 million, from the start of this year until the end of 2020. Compares with just £200,000 for the period January 1 2016 to 31 December 2018. This is a strong incentive to invest.
- Finance is generally available, for small, medium and large firms. There has been a noticeable increase in finance availability.
- A tight labour market provides a spur for automation.
- The uncertainty will not last for ever and, in any case, there is no such thing as a world devoid of uncertainty.

And we can't afford to miss out on robotics and AI

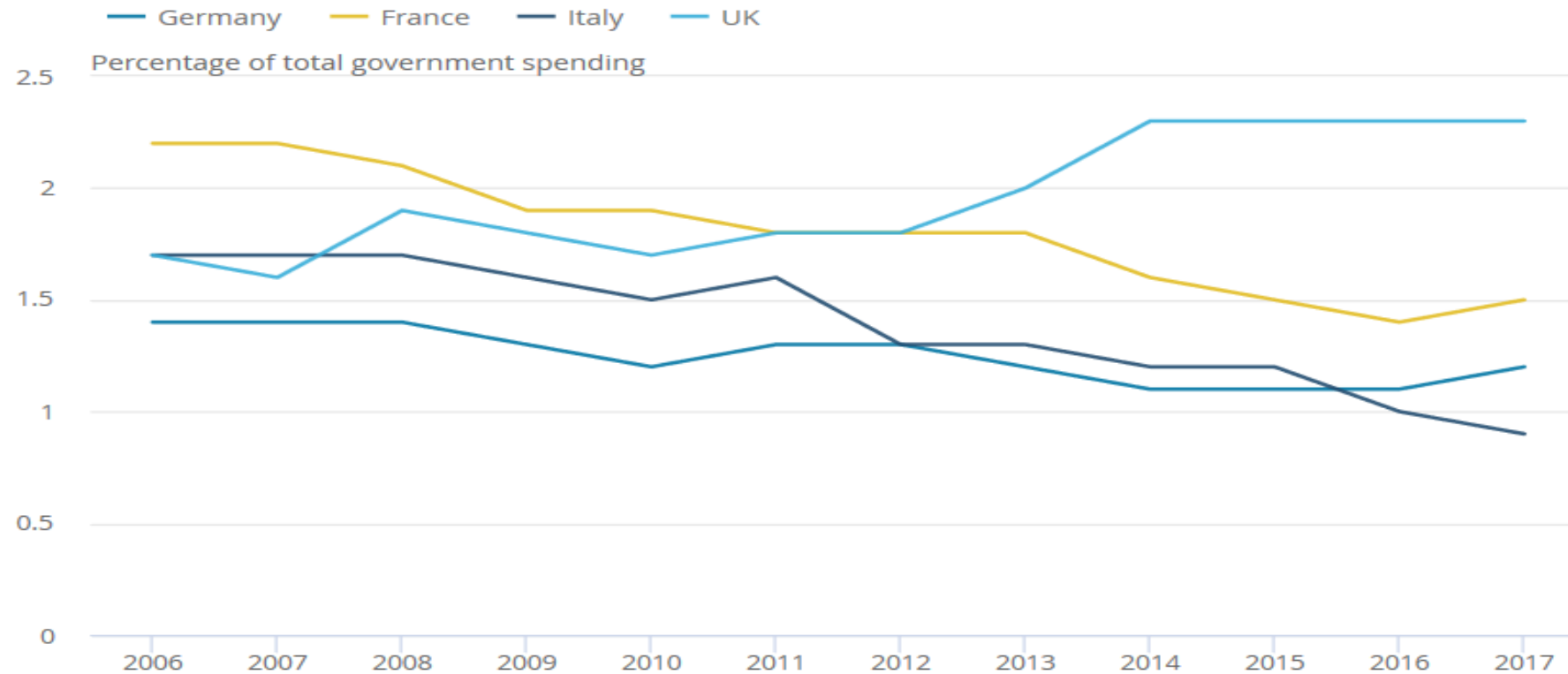
“Robots increase productivity and competitiveness. Used effectively, they enable companies to become or remain competitive. This is particularly important for small-to medium sized (SME) businesses that are the backbone of both developed and developing country economies. It also enables large companies to increase their competitiveness through faster product development and delivery.”

International Federation of Robotics.

“Thanks to recent innovations in cloud computing and big data storage and analysis, artificial intelligence is making great strides in improving efficiency in manufacturing environments, leading to better performance. AI also provides critical information to help managers make more informed business decisions.” **Industry Week**

Better recently for infrastructure spending

Government investment in infrastructure as a proportion of total government spending, EU G7 economies, 2006 to 2017



Source: Eurostat, Office for National Statistics

A problem of skills

49%

49% of the working-age population of England have the numeracy level that we expect of primary school children.

£20bn

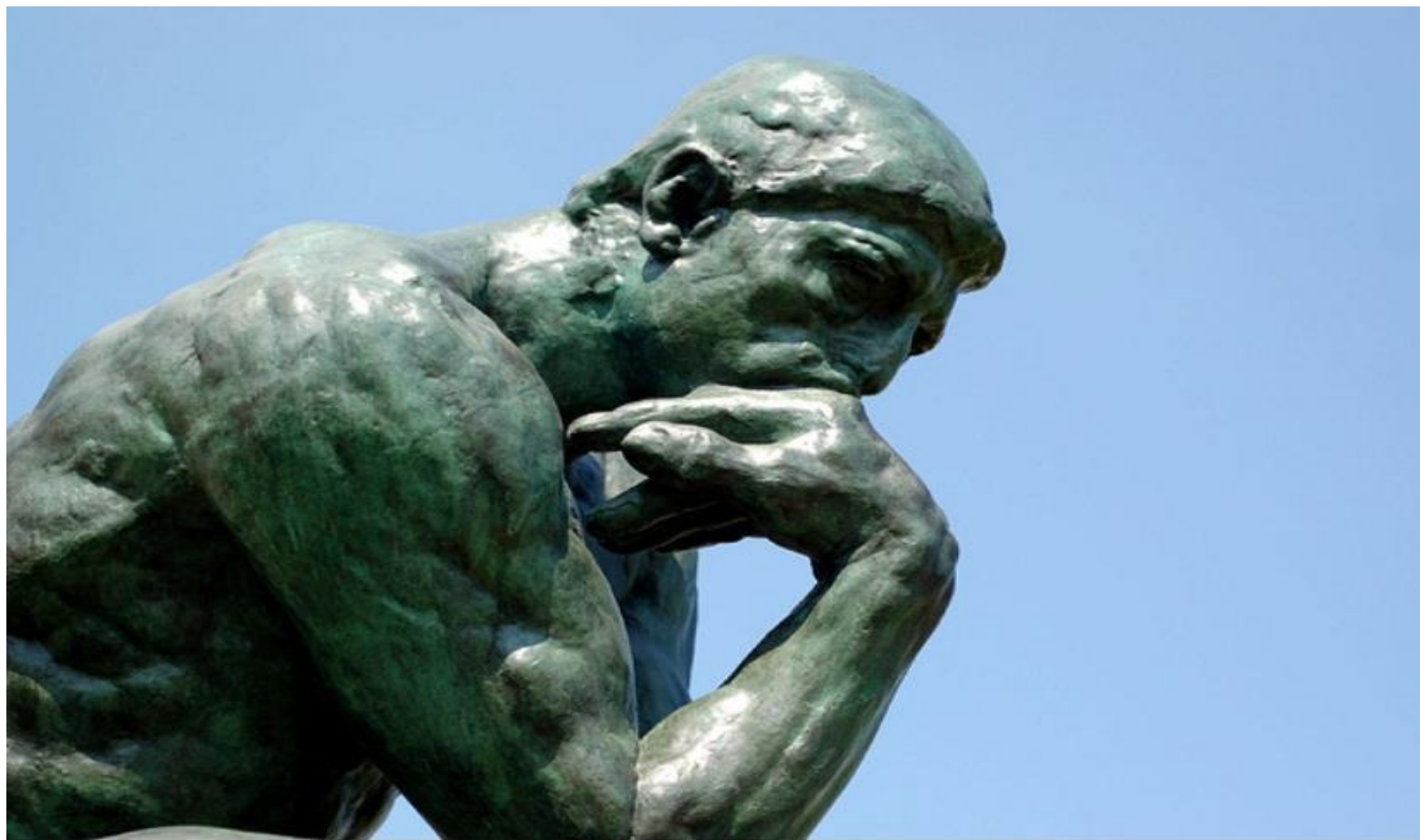
The total cost to the UK economy (to the Exchequer, employers and individuals) has been put at £20 billion a year.

A good level of skills allows people to unlock all the benefits of Internet use. In the United Kingdom, however, only 37% of the individuals aged 16-65 have a good level of literacy and numeracy skills (i.e. score at least Level 3 in PIAAC literacy and numeracy tests).

What makes a high productivity firm?

- be aware of their own and relative performance; and regularly review their performance and practices;
- have structured management practices in place (monitoring, incentives, targets);
- be part of a peer-to-peer network;
- have effective relationships with their supply chain;
- utilise a wide range of external advice and support, particularly strategic advice;
- have a clear vision for the business and an up-to-date business plan;
- have higher levels of employee engagement and job satisfaction;
- have more highly skilled managers and staff;
- provide training to improve the skills of managers and staff;
- adopt new technology and utilise digital tools to improve efficiency;
- take part in behaviours associated with growth (e.g. export, innovation, strategic decision-making).

So plenty to think about



We need to get over the Brexit hurdle



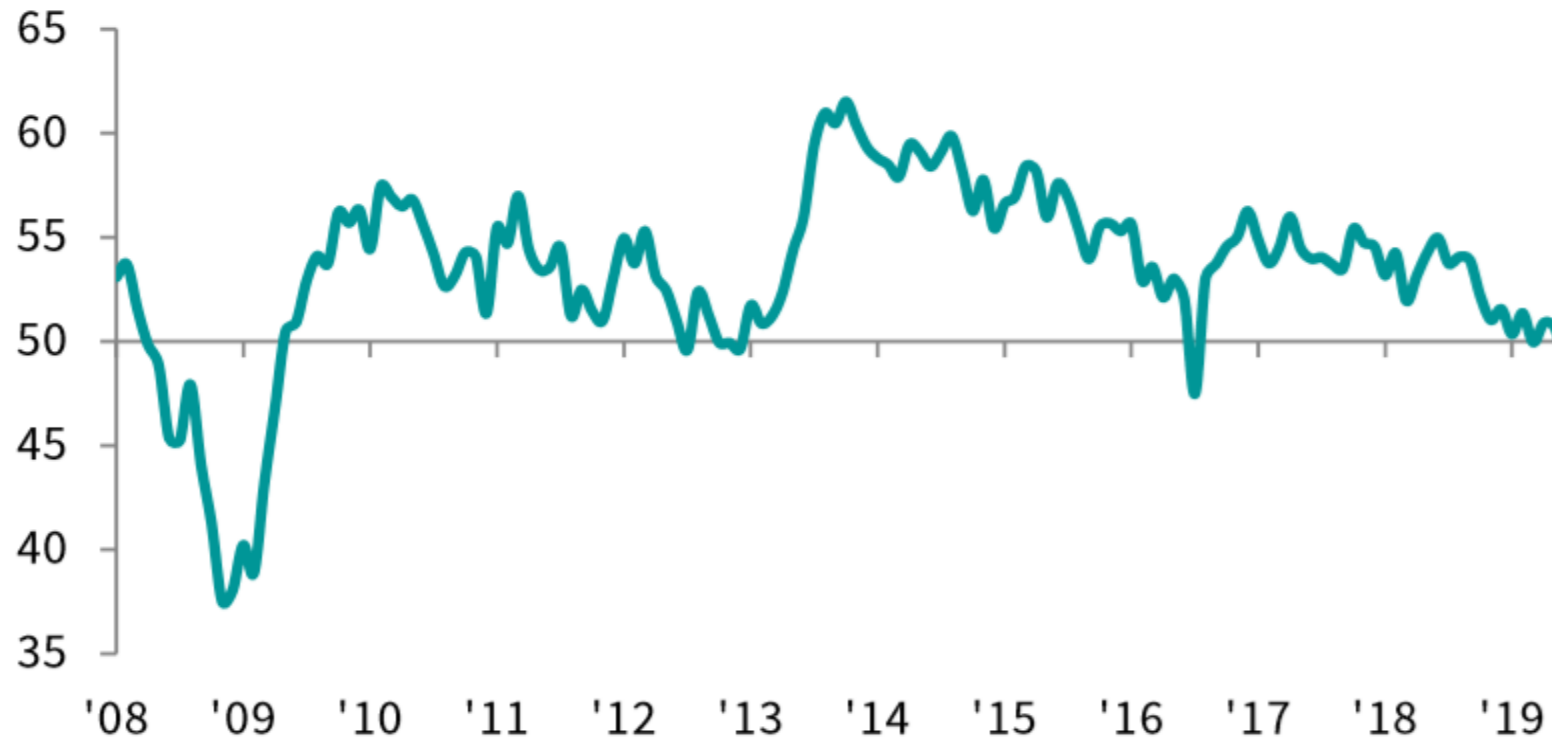
And these strange, strange times



And we need to get the economy going again

Composite Output Index

sa, >50 = growth since previous month



Sources: IHS Markit, CIPS

Don't forget to count those skips

