

UK Productivity Gap with Developed Nations Now widest for 20 Years

News Article



Output per hour worked in UK 21% below average for G7, figures from Office for National Statistics reveal

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Britain's productivity gap with its main developed country rivals is at its widest in 20 years, following the flat-lining of the economy after the deep recession of 2008-09.

International comparisons released by the Office for National Statistics (ONS) show that output per hour worked in the UK is 21% lower than the average for the other six members of the G7 – the US, Germany, France, Italy, Japan and Canada.

The ONS said this was the biggest productivity shortfall since 1992, and that on an alternative measure – output per worker – the gap was 25%.

Poor productivity has been blamed for the lack of earnings growth and the squeeze on real incomes in Britain over the past five years, though the Bank of England is expecting output per worker to pick up during 2014. John Philpott, director of the consultancy the Jobs Economist, said: "We know UK

labour productivity has been dire since the start of the recession. We now know our relative performance is even direr than first thought."

During the 1990s and 2000s, Britain closed the gap with the other G7 nations to less than 10%, but in the years since the 2007 financial crisis weak output and a smaller loss of jobs than in previous recessions has led to a marked worsening in Britain's productivity record.

The ONS said the UK productivity deficit was most pronounced in comparison with the US, Germany and France, where the gap was now more than 30%. By contrast, British workers produced 11% more per hour than their Japanese counterparts and lagged behind those in Canada and Italy by five and 11 points respectively.

Productivity tends to increase over time as new technology and better skills make economies more efficient. But the ONS said output per worker in 2012 was 3% lower than it had been five years earlier and 16% below the level that might have been expected, had its previous upward trend not been interrupted by the most severe slump of the postwar era.

Moreover, even though the UK economy has recovered since 2012, there is no evidence to suggest that the productivity gap is likely to have narrowed, leaving the UK still staring up the international productivity league table.

Philpott said that some of the productivity improvements during the pre-recession period may have been illusory because they were the result of an unsustainable boom. He added: "The UK economy clearly needs, in particular, a strong resurgence of business investment in order to both start closing the productivity gap and to trigger a rise in real wages for people in work."

The Bank of England has cited improved productivity as a key factor in whether wage growth surpasses

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inflation in the second half of the year, which would ease the pressure on household budgets. Last week the Bank governor, Mark Carney, said "We are not

complacent about this recovery at all. We are serene but not complacent. We need to see productivity come in to validate wage expectations."

Data published this week shows that wage growth rose from 0.9% to 1% in January, narrowing the gap with the CPI rate of inflation, which dipped from 2% to 1.9%. Some economists said the latest inflation figures indicated a downward trend in prices that could mean above-inflation wage growth for the first time since 2010. "This should enable real earnings to rise," said Samuel Tombs of Capital Economics.

According to ONS figures published last month, living standards have suffered their most prolonged decline since 1964. Productivity was again cited as an important component of the consistent fall in real wages since 2010. "It seems likely that a key driver is the response to the fall in productivity in 2008 and 2009, and its subsequent weakness," the ONS said.

Describing a series of "step-changes" in annual real wage growth, the ONS pointed to average growth of 2.9% in the 1970s and 1980s, then growth of 1.5% in the 1990s, 1.2% in the 2000s, and then -2.2% since the beginning of this decade.

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