

UK productivity crisis less acute than previously thought

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ONS revises up figures for economic growth after the financial crash, led by telecoms sector



Growth in the telecommunications sector between 1997 and 2018 has been revised sharply upwards © Tolga Akmen/FT

[Valentina Romei](#) in London

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Britain's productivity crisis since the financial crash has been less deep than previously feared, the Office for National Statistics said, announcing big revisions to its economic analysis, led by growth in the telecoms sector.

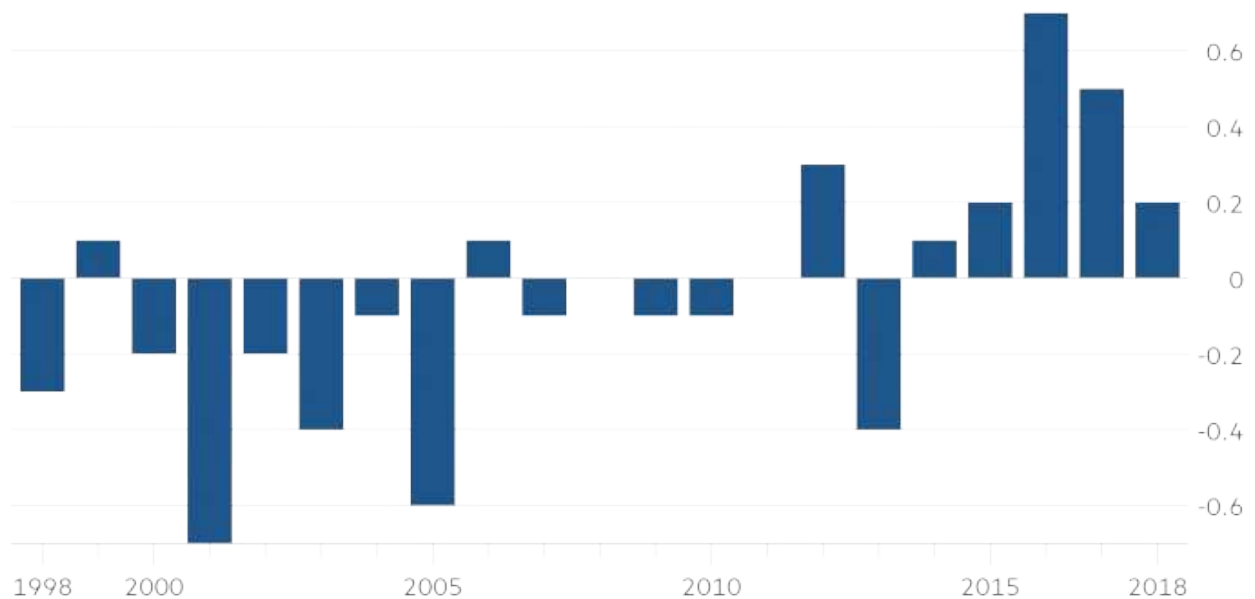
The ONS on Monday increased its estimates of real gross domestic product growth between 2010 and 2019, but found that the economy grew less than thought between 1998 and 2007.

As a result, the size of the “productivity puzzle”, or the slowdown in growth in output per hour worker, was smaller than earlier estimates, said Josh Martin, statistician at the ONS.

According to previous figures, all advanced economies suffered a slowdown in productivity growth after the financial crisis, with the UK worst affected, raising concerns over the long-term growth of the country’s economy and public finances.

New ONS data show smaller UK productivity slowdown

Revisions to year-on-year output per hour growth, current and Blue Book 2021 data, percentage points



Source: ONS
© FT

However, growth in the telecommunications sector between 1997 and 2018 “dramatically” surpassed earlier expectations, with productivity growth rates revised to 25 per cent per year, up from 5.7 per cent for that period. While the slow down in growth between the period before the financial crisis and afterwards was revised down.

Matthew Evans, director of markets at the tech trade association TechUK, said the figures “demonstrate the improvements the UK’s telecoms industry has made”.

He added that “ensuring the future rollout out of full fibre and 5G will be vital to a digital-led recovery from the pandemic and ensure future resilience in the UK economy”.

The updated ONS calculations, which will be implemented in official figures in autumn, were based on better estimates of telecoms prices, which reflected the rapid change in quality improvements across the sector.

Data showed “the rapid technological progress in this industry over the past two decades”, it said.

The revised calculation challenged previous studies that had identified the telecommunications industry as a large contributor to a slowdown in UK productivity growth.

The performance of the management consultancy sector was also revised up. Tamzen Isacson, chief executive of the Management Consultancies Association, said it reflected the trend towards digital technologies over the past decade.

“In the last year, the shift to remote working has yielded further benefits in terms of productivity in our work, with unnecessary travel reduced as clients have recognised consultants can deliver successful results virtually,” she said.

The slowdown in productivity in the financial services industry after 2009 was still “a feature of the new data”.

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Average annual GDP growth between 1998-2007 was 2.7 per cent, down from previous estimates of 2.9 per cent, according to the ONS. But between 2010-2019 it was revised up 0.1 percentage points up to 2.0 per cent.

The new data were calculated using a “double deflation method” instead of the current single deflation method, which takes separate account of the differing price and volume movements of input and outputs in an industry’s production process.

Bart van Ark, managing director of The Productivity Institute, a research organisation, said the changes to the method of calculation were “a good thing” and “long overdue”.

The ONS noted that despite the UK productivity puzzle being less severe than previously thought it was “still present” in the revised data.

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Statisticians make Britain's productivity slowdown look less dramatic

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Economic statistics

Statisticians make Britain's productivity slowdown look less dramatic

They have altered the way they calculate changes in output



FOR MORE than a decade, a productivity puzzle has baffled British economists. After the financial crisis of 2008, growth in labour productivity slowed around the globe, but Britain's problems appeared particularly acute. On June 29th the Office for National Statistics (ONS) offered a partial solution to the mystery: mismeasurement.

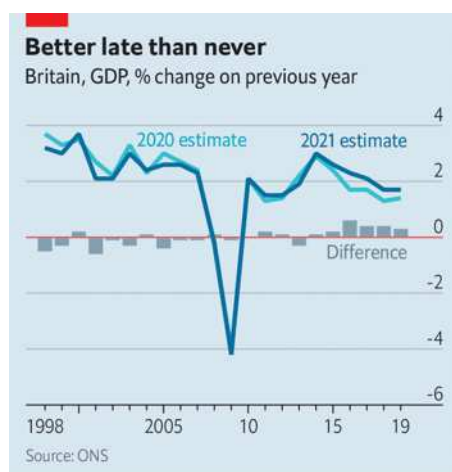
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Better methods for calculating changes in output have partially rewritten the past two-and-a-half decades of economic history. The ONS now reckons the economy grew slightly more slowly before the crisis than had been believed, and slightly faster since (see chart). As employment figures have not been revised, measured productivity growth is up, too. That explains away around a quarter of the apparent slowdown since 2008.

Some of the extra growth was uncovered by a new survey of financial services, which gives official statisticians a better view of output in a major sector of Britain's economy. Income from fees and commissions that were once estimated can now be measured directly. More interesting and wide-ranging are the effects of "double deflation". Calculating the real change in economic output means correcting for changing prices by using a price index, or "deflator". Previously, British GDP data were calculated by applying a single deflator to each industry; now, the ONS has followed a trail blazed by some other statistical agencies and started to use different deflators for the inputs and outputs in each industry's production process.



The Economist

This transforms the statisticians' view of clothing manufacturers, with average annual productivity revised upwards from 2.5% to 11.3%. But the effects have been most dramatic in the telecoms sector. Previously, the ONS reported average annual productivity growth of around 6% between 1997 and 2018, which was hard to square with the shift from dial-up modems to internet-enabled smartphones during that period. The new method raises that to an annual average of over 25%.

Not every part of the economy has been cast in a better light. The changes make some sectors look worse than before, and some of the faster growth now chalked up to those that look better has, in effect, been reallocated from others. Of the 66 industries tracked by the ONS, 39 have seen their productivity downgraded after the application of double deflation. Though manufacturing performed better than had been thought since 2008, the slowdown in some services now appears larger. But the overall picture is that Britain's productivity puzzle is smaller than previously believed, and it no longer looks like a global outlier. ■

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