

BELOW THE AGGREGATE: A SECTORAL ACCOUNT OF THE UK PRODUCTIVITY PUZZLE

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Abstract

We analyse new industry-level data to re-examine the UK productivity puzzle. We carry out an accounting exercise that allows us to distinguish general macroeconomic patterns from sector trends and idiosyncrasies, providing a roadmap for anyone interested in explaining the puzzle. We focus on the UK market sector. Average annual labour productivity growth was 2.5 percentage points lower during the period 2011-2015 than in the decade before the financial crisis that began in 2007. We find that several years on from the financial crisis stagnation remains widespread across detailed industry divisions, pointing to economy-wide explanations for the puzzle. With some exceptions, labour productivity growth lost most momentum in those industries that experienced strong growth before the crisis. Three fifths of the gap is accounted for by a few industries that together account for less than one fifth of market sector value added. In terms of why we observe continued stagnation, we find that capital shallowing has become increasingly important in explaining the labour productivity growth gap in service sectors, as the buoyancy of the UK labour market has not been sufficiently matched by investment, although our figures suggest that the majority of the productivity gap is accounted for by a TFP gap. The collapse in labour productivity growth has been more pronounced in the UK than elsewhere, but the broad sector patterns of productivity stagnation are in many respects similar across other advanced economies, emphasising the importance of global explanations for the puzzle. UK industries that saw the biggest reductions in productivity growth tended to be internationally competitive and more dependent on global demand than other industries. They were also industries where productivity is difficult to measure.

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[ESCoE-DP-2018-06 Summary](#)

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