

Productivity and investment

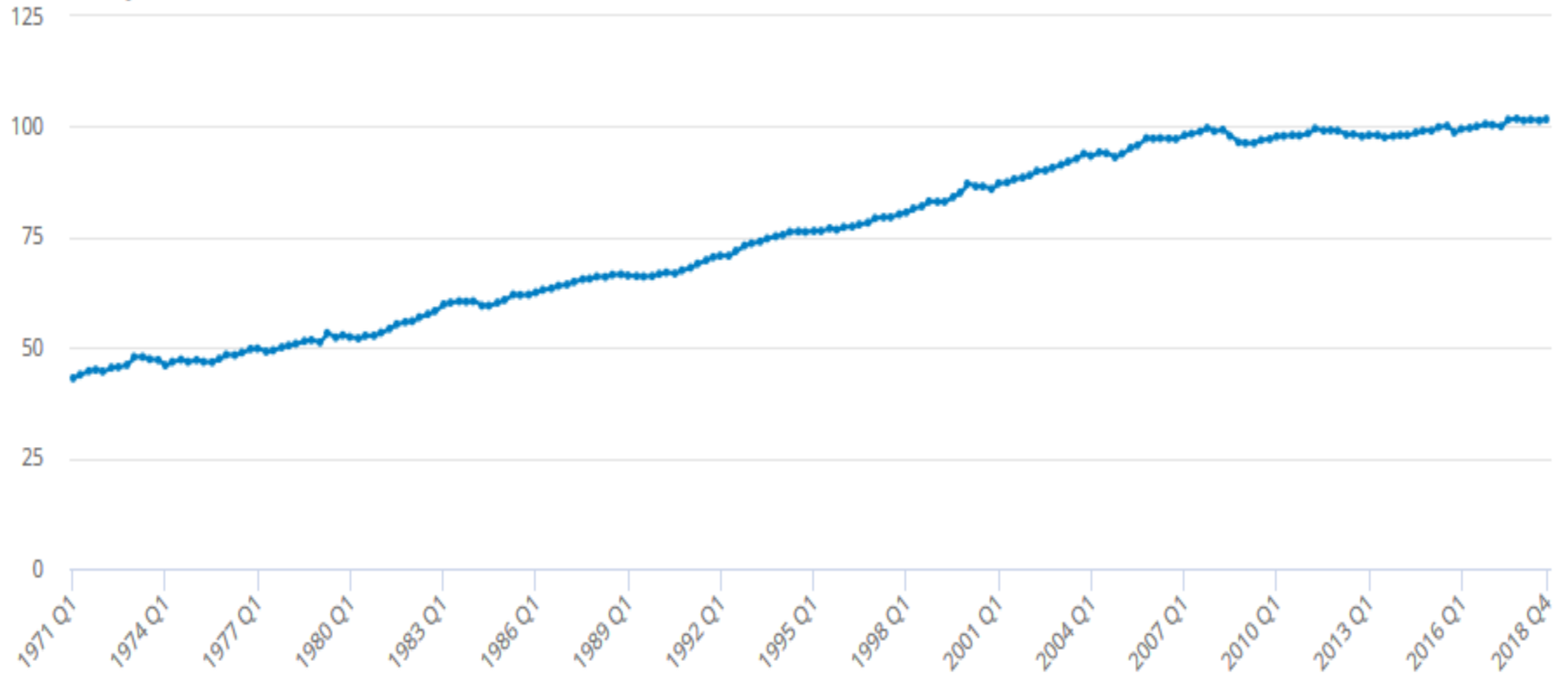
Paul Johnson

@PJTheEconomist

UK productivity flatlined since recession

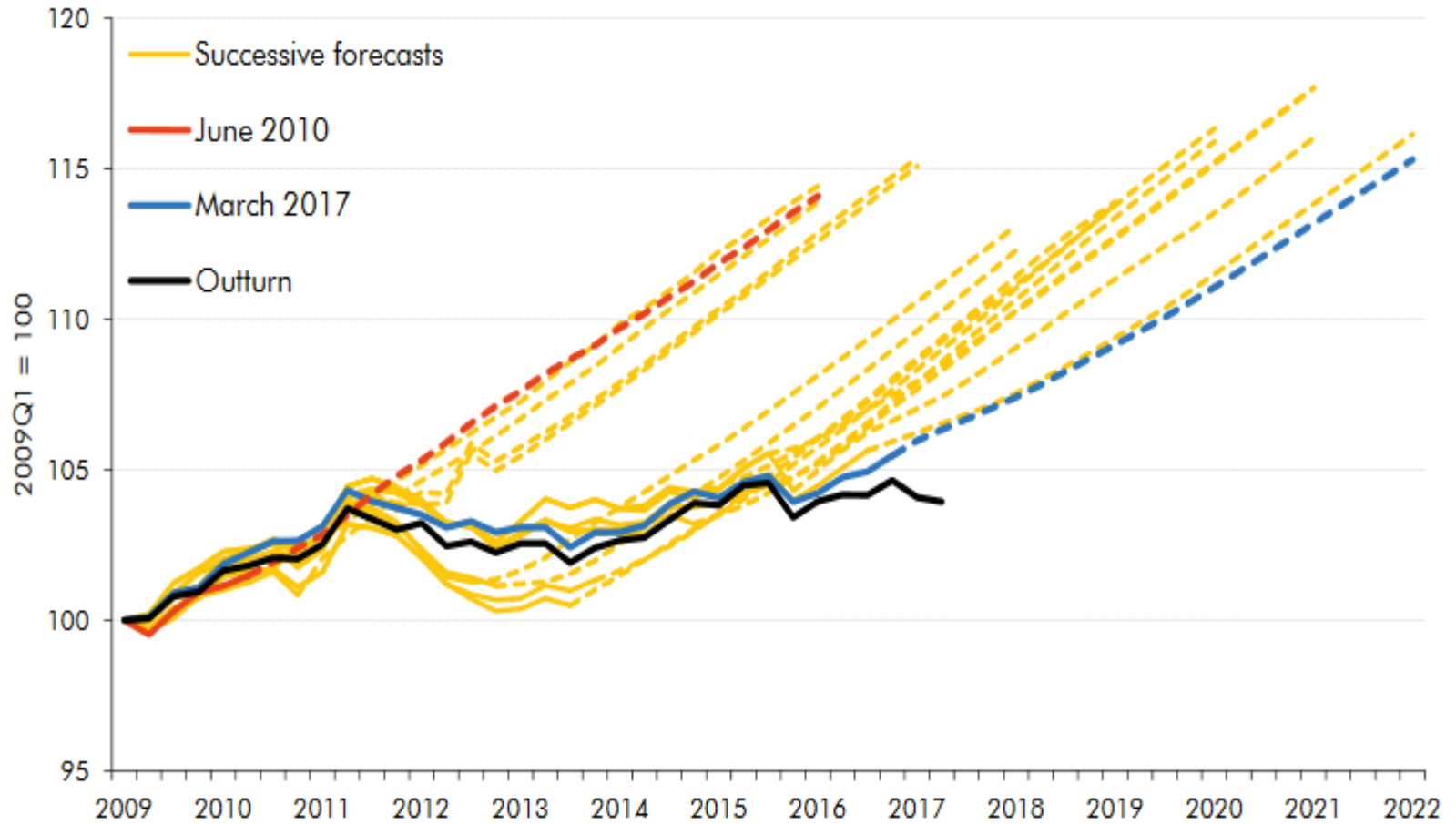
UK Whole Economy: Output per hour worked SA: Index 2016 = 100

Index, base year = 100



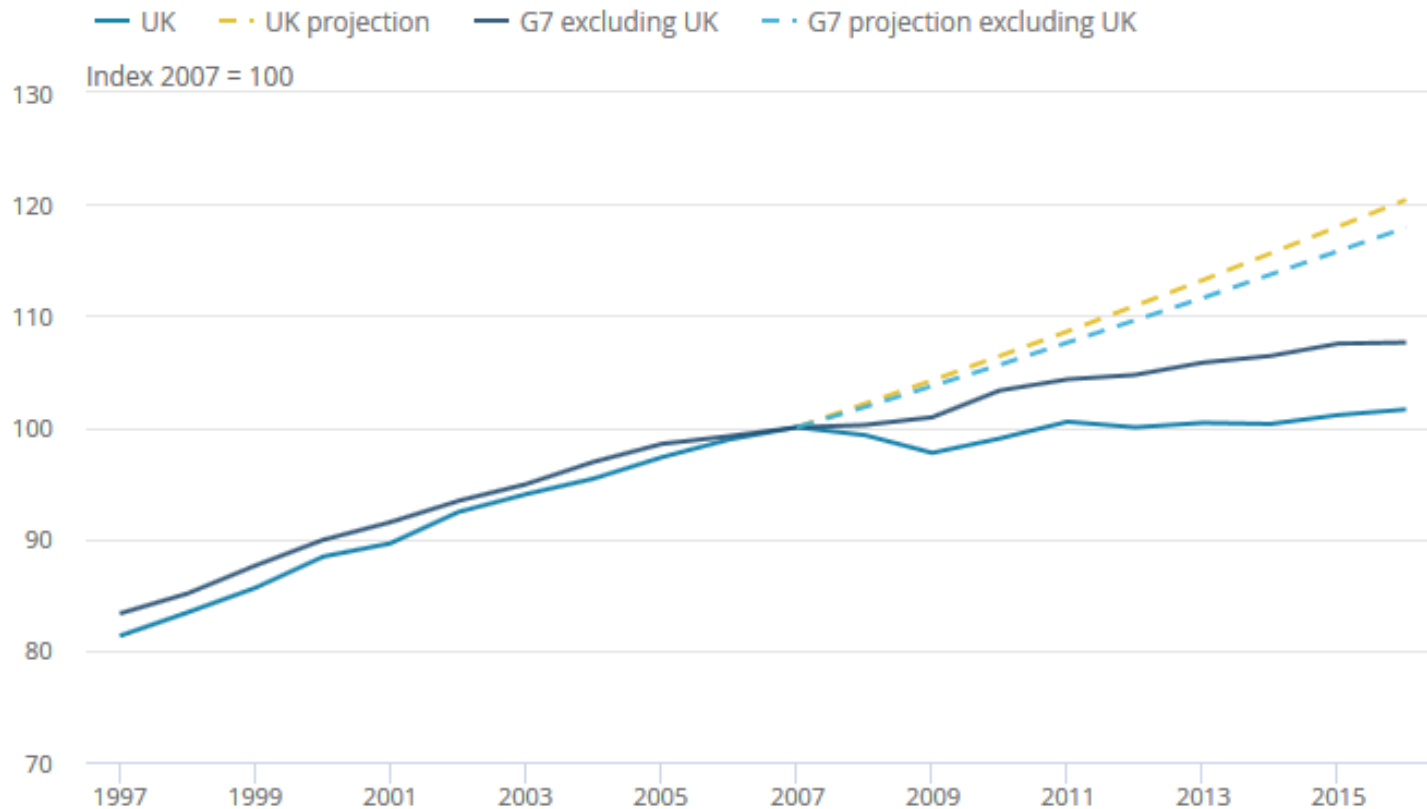
— UK Whole Economy: Output per hour worked SA: Index 2016 = 100

This was not predicted



UK slowdown worse than other G7 countries

UK and G7 countries, 1997 to 2016



Only two things drive productivity growth

(1) Allocation of resources: people and capital deployed in places where they are most productive

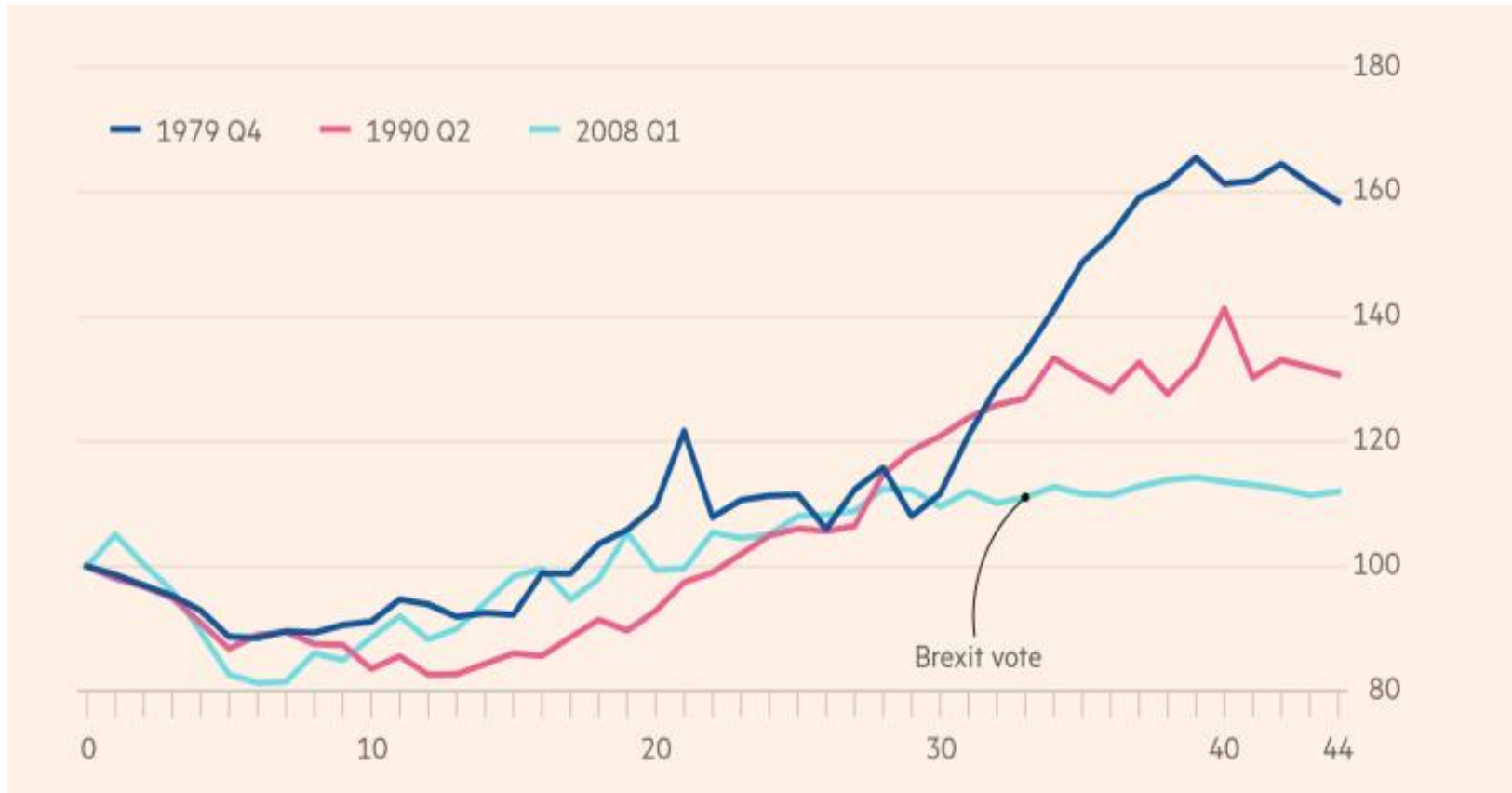
(1) Some evidence of misallocation of capital post recession

(2) Technological progress via investment in new ways of doing things

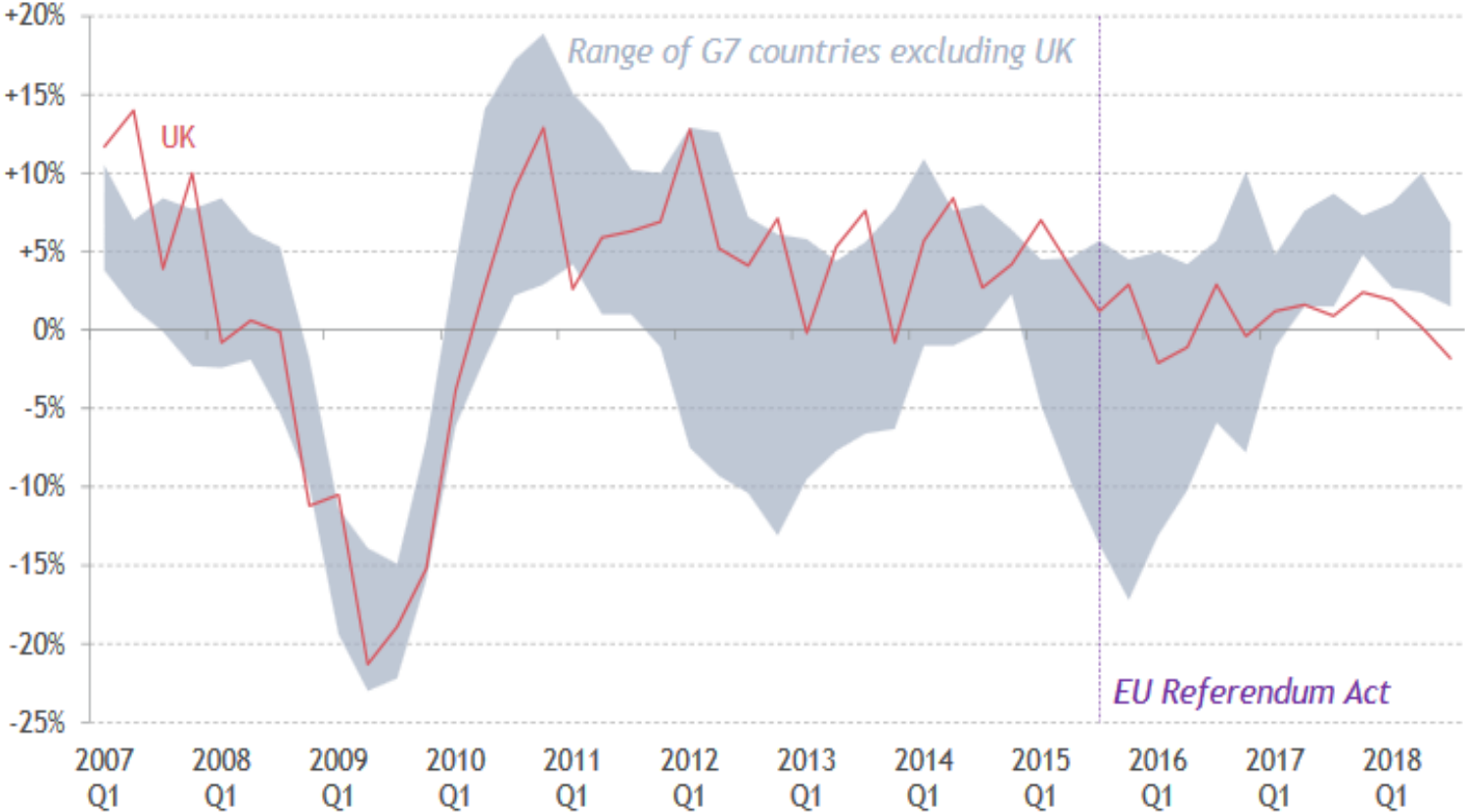
(1) Post recession big reductions in business investment associated with lower demand and greater uncertainty. This is mostly firms stopping big investments entirely

(2) Collapse in business investment after the Brexit vote in response to greater uncertainty

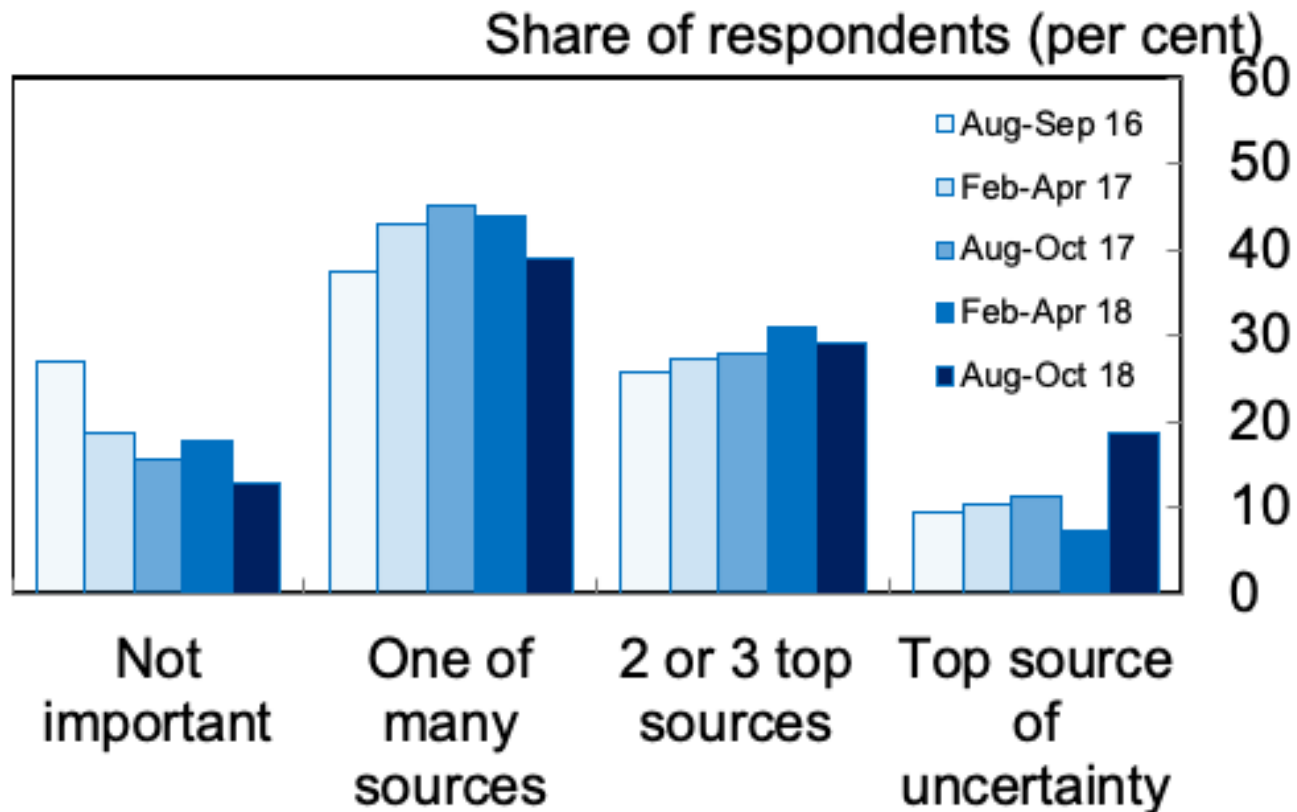
Business investment recovered much more slowly than after previous recession



Collapsed since Brexit vote relative to G7



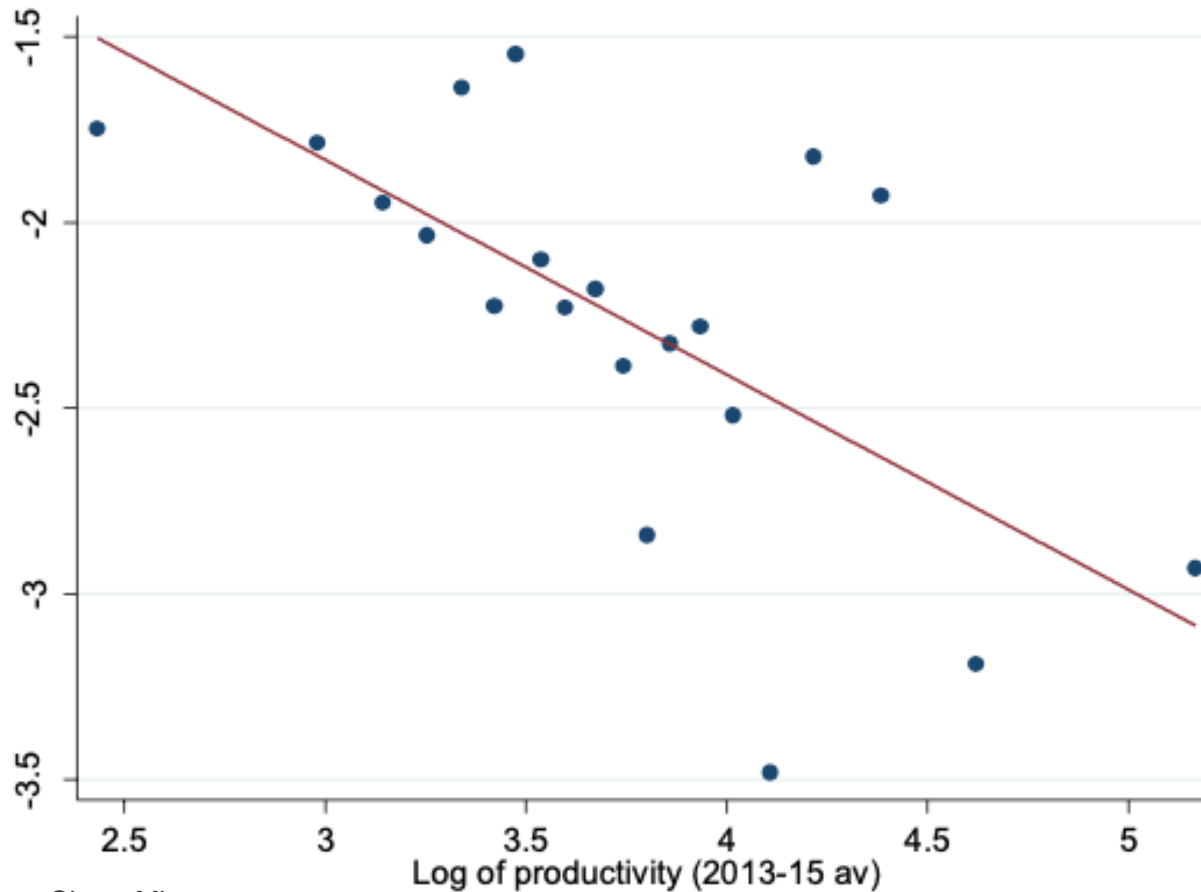
Brexit is major source of uncertainty



Source: Bloom, Chen, Mizen

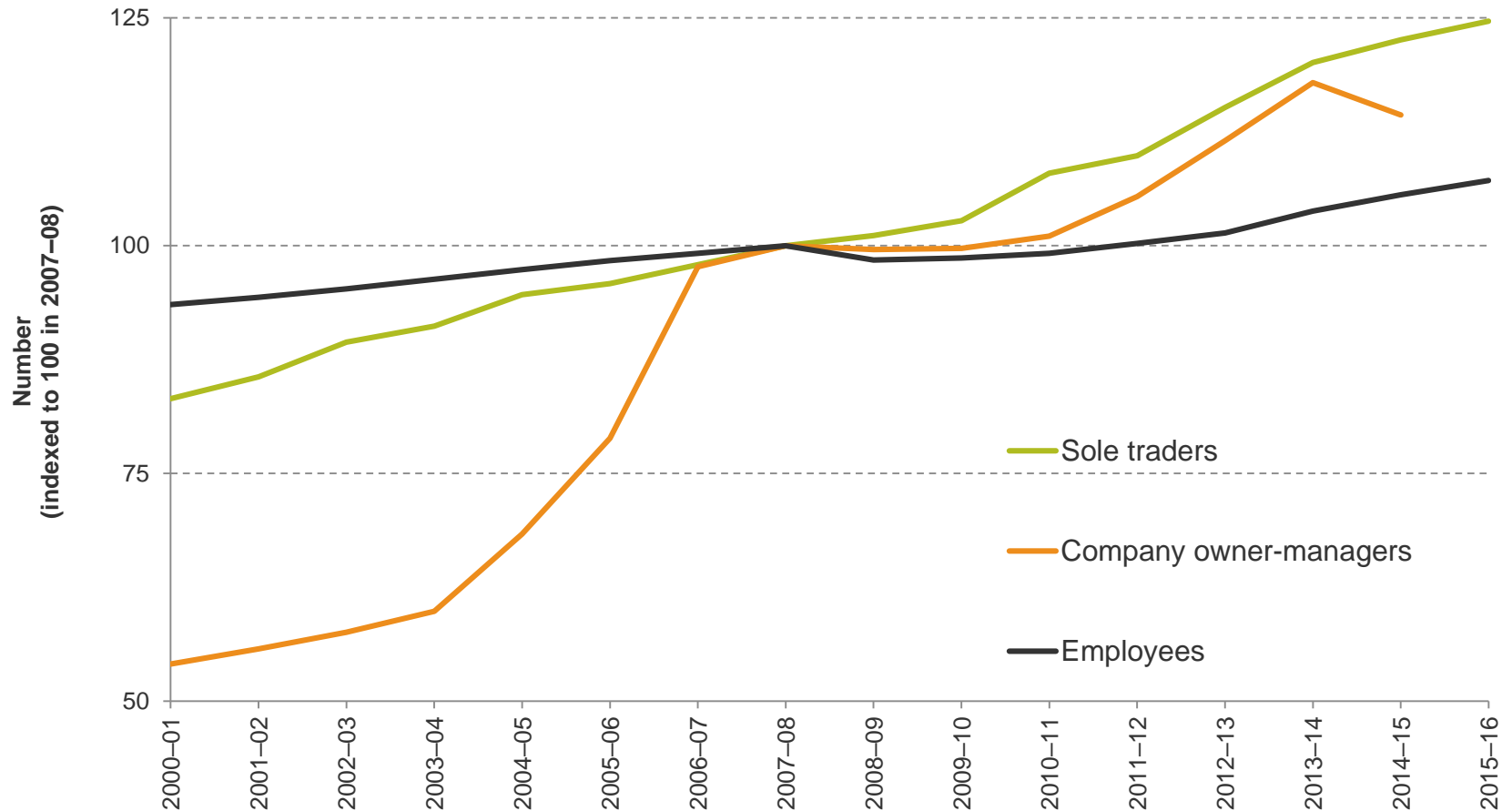
Most productive firms expect Brexit to have biggest impact on sales

Figure 3 Expected eventual impact of Brexit on sales versus productivity



Source: Bloom, Chen, Mizzen

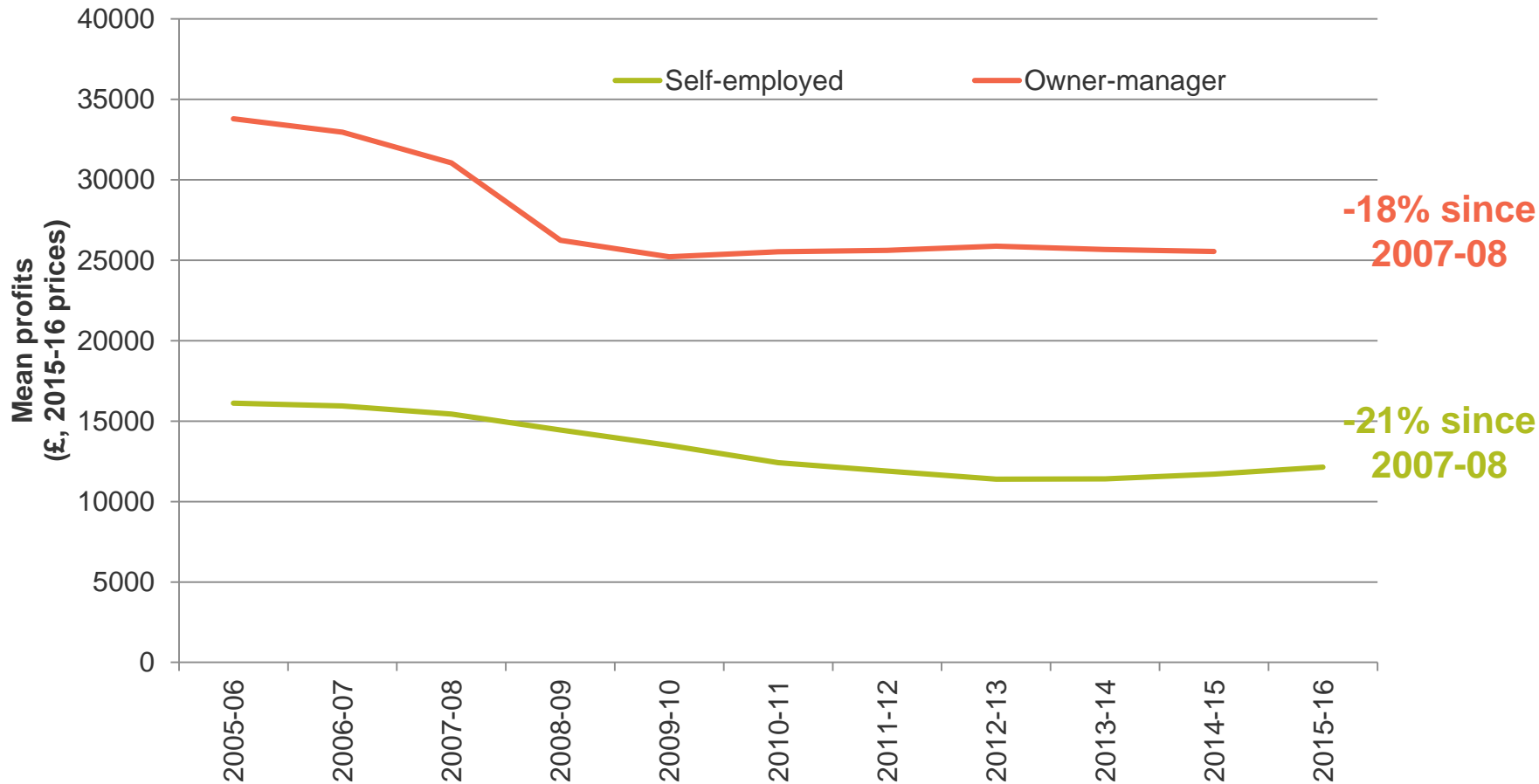
Will the upsurge in new small business help?



Source: Cribb, Miller and Pope, 2019, Who are business owners and what are they doing?

No.

Average business profits are lower than before the crisis



Source: Cribb, Miller and Pope, 2019, Who are business owners and what are they doing?