Productivity – It's Everything Now

25 February 2025

Source: LSEG Datastream

Timeframe: 1987 to 2024

UK productivity growth has been weak since the financial crisis.

Key points:

- In the 30 years to 2008, productivity growth averaged over 2% in the UK. With that level of growth, a country might possibly enjoy good disposable income growth, low taxes, and decent public services.
- But since then, productivity growth has collapsed, averaging just 0.5% over the last 15 years – whereas the US has seen 1.5% over the same timeframe. This sluggish growth may help to explain why taxes have gone up, public services are under pressure, and the government's fiscal position is in such a perilous state.
- The OBR has persistently overestimated UK productivity growth, and is currently forecasting it to be 1.2% by 2029. Whilst all the media attention may be on the OBR short term GDP numbers, what really should frighten Chancellor Reeves and the Gilt market is the long term implication of the last 15 years' growth becoming the new normal.
- If you were to forecast debt/GDP (currently at 98%) out to 2073, based on current demographic and economic trends, and assuming productivity growth of 1.5% (which we haven't seen since 2008), debt/GDP reaches an unsustainable 275%. However, with 0.5% productivity growth, it is over 600%! Not to mention, these numbers exclude the unfunded public sector pension liabilities.
- In terms of the recent media darling of all things AI, that productivity revolution can't come quickly enough for the UK.

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