

# THE PRODUCTIVITY INSTITUTE

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## The Wales Productivity Challenge: Insight paper



### Productivity Picture

Wales has a population of 3.2 million accounting for 4.8 percent total UK population and 3.4% of UK GDP. Economic activity is largely concentrated in the south, including the cities of Cardiff, Swansea and Newport. North-, mid- and southwest Wales are generally very rural areas with sparse population density. The Welsh economy has a sizeable productivity gap with the UK, and, although the gap has not widened further over the past decade, the long-term slowdown of productivity over the longer term is a major factor of concern. Wales has experienced serious deindustrialisation over the past 50 years from a former legacy of coalmining and metals production, particularly in the south Wales valleys.

But today, Wales still benefits from relatively good productivity performance in manufacturing, but weak productivity performance in other

sectors, notably services. It still has the highest share of output in manufacturing at 17.2% of total value added compared to 10.1% for the whole of the UK in 2018. This is supported by a number of anchor manufacturers in aerospace and automotive. Despite a relatively strong manufacturing sector, Wales has the lowest proportion of private sector employees in R&D activity of all the UK NUTS1 regions. The share of the working age population qualified with intermediate and high skills is relatively low at 57.9% compared to 60.3% for the whole of the UK in 2020.

This is marginally better than corresponding shares in northern and midland English regions but well below London, southern and eastern England and Scotland. Earnings levels in rural Wales are amongst the lowest across the whole of the UK, standing alongside very high rates of self-employment,

and contributing to extremely low levels of sub-regional productivity in counties such as Powys. Agricultural productivity in Wales suffers from a very high proportion of upland farmland classified as severely disadvantaged and consequent low levels of diversification. In particular during the 1980s and 1990s, Wales achieved success in attracting significant new foreign direct investment.

The 'valleys', however, have struggled to recover, being an area of dense population settlement, poor housing and population health and limited transport access. Since the establishment of Senedd Cymru (formerly the National Assembly for Wales) in 1999, Wales has experienced devolved powers regarding health, education, transport, economic development and business support, agriculture and environment, and some limited fiscal powers.

All these figures are from ONS data

**3.4%**  
Share of UK  
GDP (2019)

**4.0%**  
UK total hours  
worked (2019)

**57.9%**  
Intermediate and  
high skilled 16-65  
population (2018)

**6.0%**  
Change in  
productivity between  
2008 and 2019

**84.1%**  
of UK labour  
productivity level  
(2019)

# Majority of the Wales counties have been catching up relative to UK average productivity

In 2019 productivity (gross value added per hour worked) in Wales stood at 84.1% of the UK level, which ranks Wales at the lowest across UK NUTS1 regions with the exception of Northern Ireland. Over the previous 10 years, productivity increased by 6 percent compared to 4.1 percent in the UK, leaving the Wales-UK gap largely unchanged. This gap has persisted despite Wales benefitting from three successive 7-year programmes of EU Structural Funds support.

Counties in East Wales, with the exception of Powys, performed

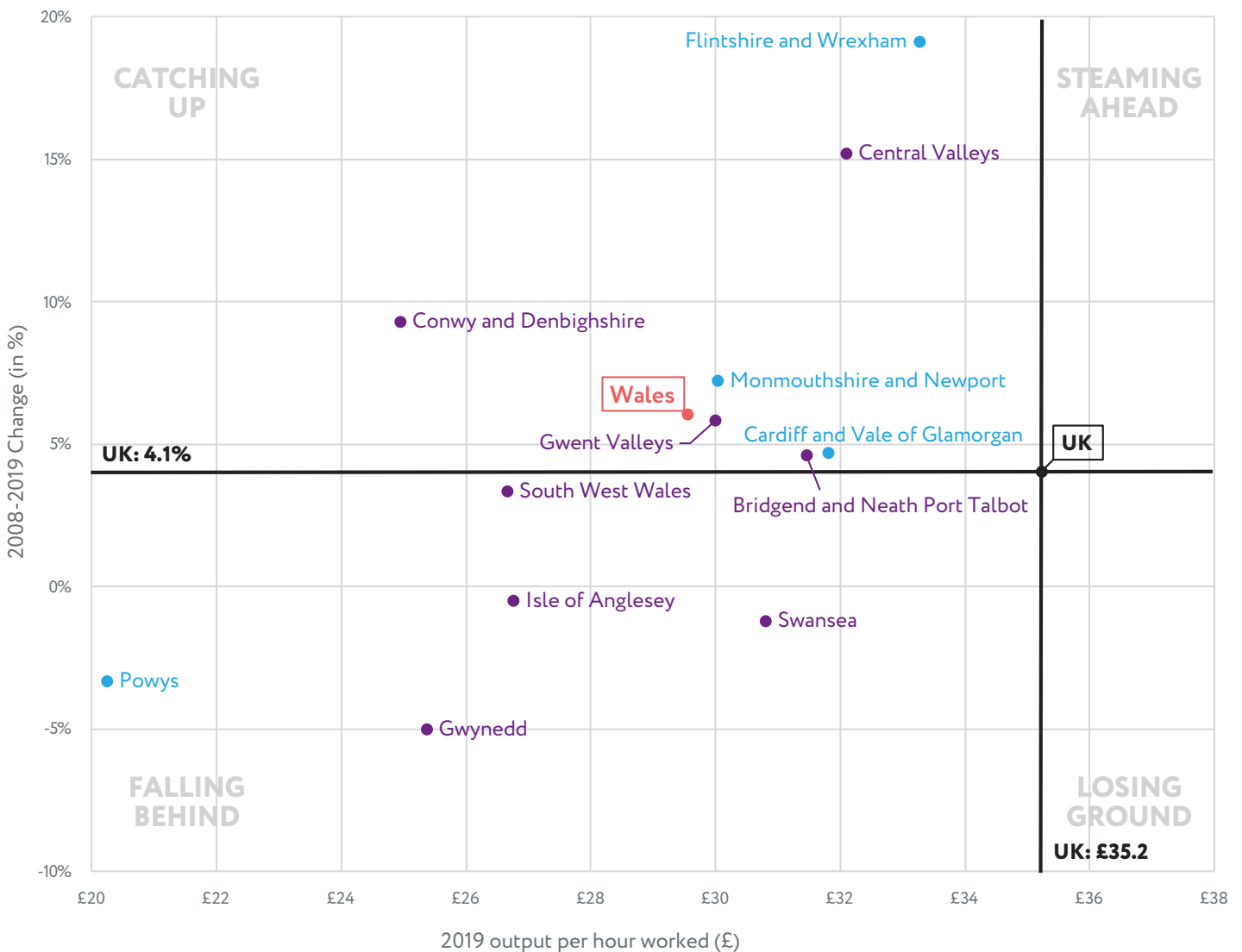
relatively well compared to the Welsh average, in particular Flintshire and Wrexham outperformed the other Welsh regions on both productivity growth and levels, presumably because of the concentration of aerospace manufacturing and other activity around the Airbus plant.

The combined counties of Cardiff and Vale of Glamorgan have one of the highest productivity levels in Wales, but fell somewhat behind the average growth rate of Welsh productivity. Most other areas, located in West Wales and the Valleys performed below the

Welsh average on productivity levels and growth rates, with the exception of Central Valleys. However, in contrast to Flintshire and Wrexham, Central Valleys shrank in employment losing less productive activities but grow more productive ones.

**KEY**  
● East Wales  
● West Wales and the Valleys

Labour Productivity Levels (2019 in £) and Change (2008-2019, in %) for Wales



Source: Office of National Statistics, Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, 23 July 2021.

## Primary Drivers and Bottlenecks

Poor levels of economic prosperity, economic inactivity and weak productivity performance in Wales have often been attributed to the legacy of deindustrialisation. However, the share of the manufacturing sector is still the largest in the UK, led by some anchor companies in semi-conductor, energy and life sciences.

Today, service sectors account for almost 80% of employment in Wales, and there are few high value-adding service sector businesses headquartered in nation which has contributed to the low proportion of higher paid, higher productivity jobs.

Weak productivity performance can also be explained by a relatively small proportion of medium sized indigenous companies which is indicative of challenges in promoting high growth SMEs.

The low proportion of R&D activity in Wales reflects a weak innovation eco-system compared to other UK ITL-1 regions. Although education has traditionally been highly valued within Welsh society, relatively low proportions of the population achieving higher skills level qualifications act as brake on productivity growth, especially when combined with a tendency for

the most talented to migrate to higher education and jobs in London and other large English cities.

Transport infrastructure investment in Wales has not kept pace with commuting and business needs in southeast Wales and is an important source of current contention. This may prevent the realisation of the benefits for productivity from spatial agglomeration. Poor public transport provision and digital infrastructure has especially hampered connectivity for the mid and north of the country.

### Strengths

- Relatively strong manufacturing sector, led by significant anchor companies
- Strengths in advanced semi-conductor, clean energy, life science and financial services sectors
- Wellbeing of Future Generations framework, providing long term policy perspective
- Agile policy making and implementation, supported by 'small degrees of separation' between stakeholders

### Weaknesses

- Low levels of growth aspiration about small and medium sized enterprises
- Small size of the private sector relative to overall economy
- Relatively low levels of higher skills attainment
- Low levels of private sector R&D activity within Wales
- Limited 'ownership' of productivity as an objective across different layers of regional and sub-regional governance

### Opportunities

- Development Bank of Wales' ability to leverage further business investment into Wales to support SME growth
- Partnership innovation activity between technology SMEs and public services, supported by regional growth deals
- Public transport infrastructure investment funded from growth deals
- Make more of cultural heritage of the nations, e.g. in sports and arts
- The vibrant cultural and arts sector in Wales, including public sector sponsored projects such as the location of major programming production in Wales by the BBC, has the potential to strengthen a "supply chain" with above average proportions of skilled, better paid jobs

### Threats

- Adverse impact of post-Brexit trade arrangements on manufacturing, agriculture and fisheries
- Damage to SME base in significant sectors, such as tourism and hospitality, because of COVID-19
- Damage to skills, business growth and knowledge transfer support programmes from end of EU Structural Funding
- Damage to port activity in Ynys Môn and Pembrokeshire from Ireland-EU shipping diversion

## Looking to the future

The 2015 Wellbeing of Future Generations Act is legislation, which is unique to Wales, frames aspirations for innovation and productivity which are socially inclusive and sustainable in environmental and social terms.

The Act provides the opportunity for Wales to adopt a consistent and integrated approach to policy and public investment in productivity enhancement. It is important that policy makers use their responsibilities under the Act to frame productivity growth as the means to achieve inclusive and sustainable improvements in individual and societal wellbeing.

Wales can build on its strong heritage of valuing education and training to raise student aspirations, improve skills attainment, and to match the provision of skills to appropriately articulated and aspirational business needs. This requires the development of businesses who can absorb skills and translate

those into productivity. Success will be measured in terms of improved numbers of locally educated graduates and apprentices employed in Welsh SMEs. Improvements in management and leadership capacities within those SMEs are among the most critical needs.

The Development Bank of Wales, formed in 2017, has quickly established itself as an effective means to leverage additional investment funds to Welsh businesses in partnership with commercial investors and lenders. This can also help to improve the innovation eco-system in Wales and raise R&D activity to at least the average UK levels.

The four regional growth deals which cover the whole of Wales have the potential to provide resourcing and governance 'reach' to achieve this, and support innovation activity in Wales aligned to Wellbeing of Future Generations aspirations.

At least one of these growth deals (Cardiff Capital Region) is also tasked and resourced to deliver significant improvements in public transport infrastructure. These improvements will be a success if they can raise productivity across southeast Wales to levels equivalent to those an equivalent-sized European city region with high quality transport infrastructure.

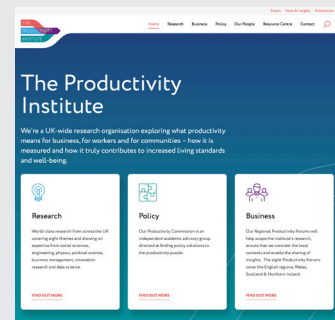
## The Productivity Institute

The Productivity Institute is a UK-wide five-year research organisation, which began in September 2020 and is funded by a £26 million grant from the Economic Social Research Council in the UK – the largest single grant in its history and supported by £6 million from partner institutions.

It explores what productivity means for business, for workers and for communities – how it is measured and how it truly contributes to increased living standards and well-being. Productivity is key to a more prosperous and equitable society.

We aim to pinpoint the causes of the stagnation in UK productivity and focus energies to laying the foundations for a new era of sustained and inclusive productivity growth, which will improve our material standard of living.

Our world-class research draws on expertise from social sciences, engineering, physics, political science, business management, innovation research and data science. Our research activities and outputs are developed in collaboration, and in some instances through co-production, with business and policy users.



For more information and insights, please visit our website at [www.productivity.ac.uk](http://www.productivity.ac.uk) where you can also sign up to receive our regular newsletter.

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