



The North West of England's Productivity Challenge: Insight paper

Productivity Picture

The North West of England is made up of five distinct but interconnected sub regions: the two major cities and urban agglomerations that surround Manchester and Liverpool and the networks of smaller cities, towns and rural communities that make up Lancashire and Cumbria to the north and Cheshire to the south. The region is home to 7.3 million people (2019), and the third most populated region in the UK.

The North West is in the middle range of regions in terms of the level of productivity. In 2019 output per hour was 9.6 % below the UK average, which was higher than in the Midlands, the North East, Yorkshire and Wales, but well below the East of England, London and the South East. The region still

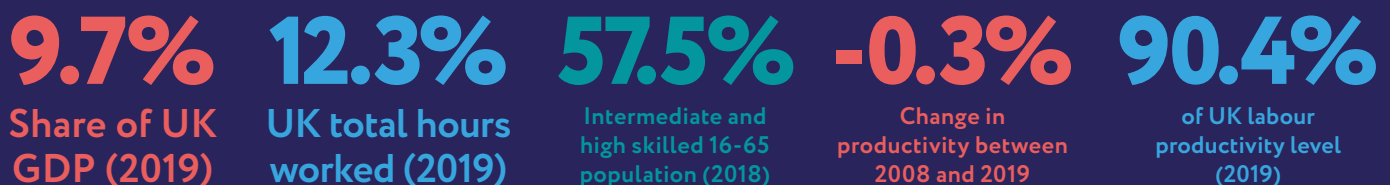
bears the legacy of its rich industrial past. It retains, by UK standards, a large manufacturing sector with the highest productivity level of any UK region, although at 9% of jobs, it is less than half the size it was in the early 1980s. Many service sectors are now bigger employers, including retail, health and social care, business & professional services, and hospitality & tourism, which have generally lower productivity levels than in manufacturing.

However, the region has seen a dismal productivity growth rate, which has even slightly fallen over the past decade, with only Yorkshire and Humber showing an even larger fall. Weak productivity growth affects almost all parts of the North West's economy including both

frontier and foundational sectors. At present, there are a range of new emerging clusters linked to leading edge R&D capabilities in sectors such as life sciences, chemicals, advanced materials, digital industries, and nuclear energy. However these new activities have not yet translated into more broad-based prosperity, with the North West experiencing significant levels of deprivation and spatial inequality.

Improvements in regional connectivity, digitalisation, skills and health, and stronger coordination and collaboration are needed to strengthen the region's innovation ecosystem and improve productivity more broadly across the region.

All these figures are from ONS data



Majority of North West subregions have been losing ground relative to UK average productivity

The average level of productivity in the North West lags the national average, and the gap has been widening over the past decade. In 2019, each hour of work in the North West produced on average £31.78 of output, which is 9.6% below the national average. Compared to 2008, productivity in the North West fell by 0.3%, whereas the national average was increased by more than 4%.

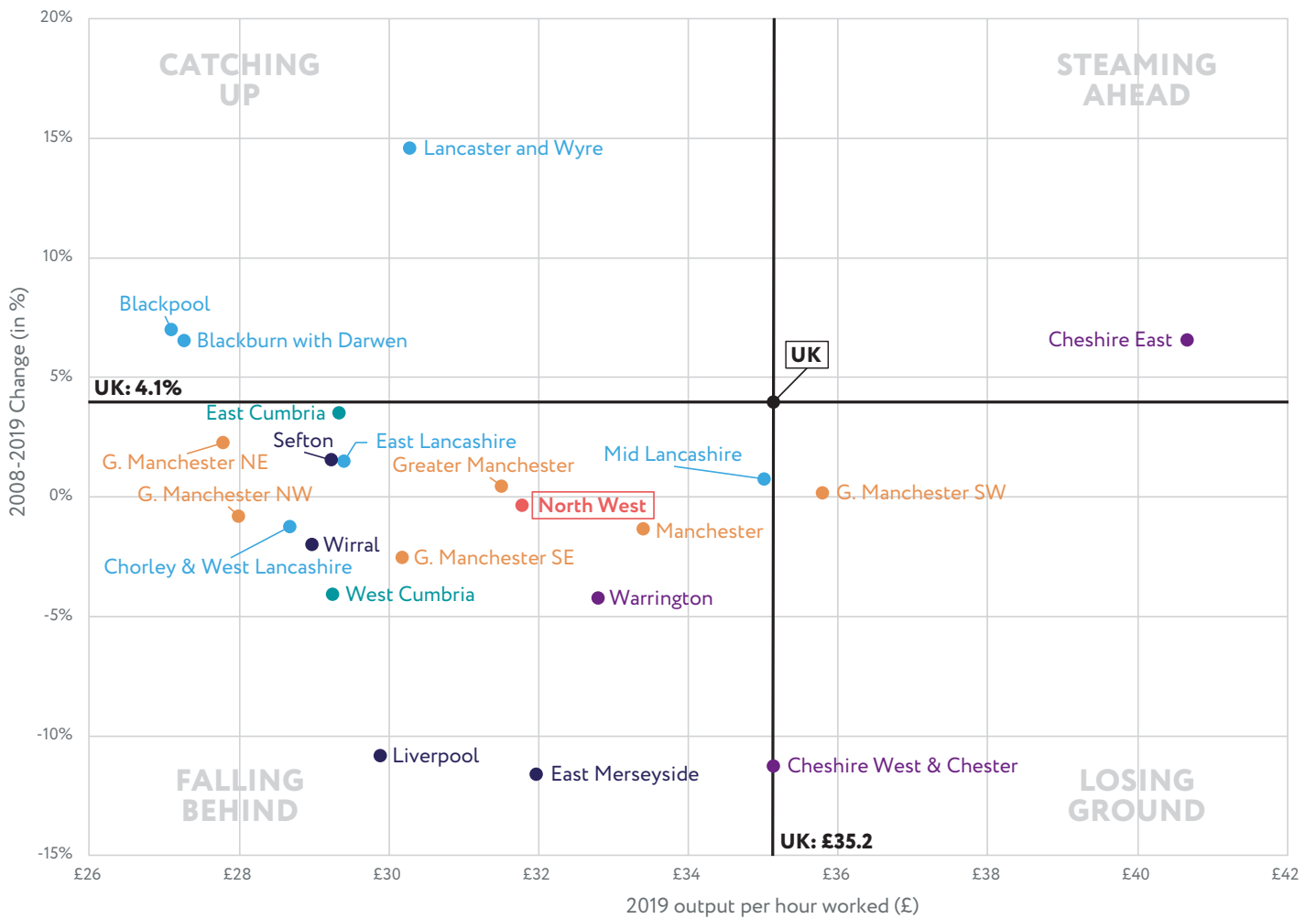
While there is wide variation, 14 of the 20 subregions underperformed the UK on both the level of productivity and the productivity growth rate. Three

other regions (Blackpool, Blackburn with Darwen and Lancaster and Wyre) produce an amount of output per hour far below the national and regional average but have been catching up with the other regions (especially in Lancaster and Wyre where productivity grew 10% between 2008 and 2019). Greater Manchester Southwest and Cheshire West & Chester showed productivity levels above the national average, but they have been losing ground as productivity growth dropped off. Only Cheshire East, with its high value cluster of life sciences and chemicals,

performed better than the UK as whole in terms of level and growth of productivity, but even there the productivity advantage seems primarily driven by some very large, high value companies, masking underperformance in other sectors and SMEs in particular.

KEY
 Greater Manchester
 Lancashire
 Cumbria
 Cheshire
 Merseyside

Labour Productivity Levels (2019 in £) and Change (2008-2019, in %) for the North West



Source: [Office of National Statistics](https://www.ons.gov.uk), Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, 23 July 2021.

Primary Drivers and Bottlenecks

The primary reasons for low productivity in the North West mirror those for the UK as a whole but appears to be impacting the region more severely – under investment by the public and private sectors in key growth drivers such as hard and soft infrastructure, R&D activity, and human capital.

Long-term scarring from the North West's industrial decline is undoubtedly a key factor for why the region is more affected by these national challenges than other parts of the UK. Deindustrialisation led to an exodus of skilled people (particularly young people) and financial and commercial institutions, stripping out critical parts of the region's economic base, as

well as leaving a legacy of long-term worklessness, ill-health and deprivation.

When the region's economic revival began in the 1990s it was built on weak fundamentals. This has been further compounded by the UK's centralised and functionally fragmented decision-making structures that stifle regional and local initiative and pay too little attention to local circumstances. Local institutions (including local enterprise partnerships, local authorities, and combined authorities) do not have the revenue or capital budgets comparable to the scale of economic challenges faced. There continue to be gaps in private sector institutions in the region too – particularly the relative lack of

decision making functions of large firms and financial institutions.

The region's fragmented economic geography and lack of critical mass is also a factor. Liverpool and Manchester, despite having concentrations of highly productive activity and knowledge assets, lack the scale and transport links to drive productivity across the region in the way that London does for the South East and the rest of the nation. Outside the major cities, the population in the North West is spread out across a number of poorly connected smaller cities, towns and settlements that limits the potential to generate positive spill-over effects.

Strengths

- Leading R&D assets, alongside complementary industrial strengths, in future orientated sectors, including advanced manufacturing and materials, life sciences, energy, and digital industries.
- Large and very productive manufacturing sector compared to other UK regions.
- Strong international linkages, including the UK's largest international airport outside the South East at Manchester and the deep sea port at Liverpool.

Weaknesses

- Fragmented and unreliable transport system.
- Gaps in human capital - including relatively low skill levels and high levels of ill health.
- Low levels of engagement in international trade by the region's businesses.
- Fragmented and poorly resourced local governance systems and institutions.
- Major cities of Manchester and Liverpool 'punching below their weight'.

Opportunities

- Developing new low carbon industrial clusters, including through the Net Zero North West programme.
- Major strategic investments, including in the Free Port in Liverpool, new nuclear power in Cumbria, and AMRC North West in Lancashire.
- Major innovation district and science corridor investments planned across the region seeking to capitalise on existing R&D strengths.
- Industrial digitalisation and the Made Smarter pilot, and opportunities to drive the digitalisation of all sectors of the economy.

Threats

- Risks to some existing carbon intensive firms from costs of transitioning to net zero.
- Loss of access to key international markets and migrant labour following Brexit, as well as loss of access to European funding.
- Long term scarring effects of COVID-19, particularly on young people.

Looking to the future

The overall impression of the North West is one of a region that has most of the assets and component parts needed to create a high performing economy, but remains trapped in a low investment, low skill, low productivity equilibrium. What is clear is that addressing the North West's productivity challenges cannot be delivered with the same historical approach. It will require a sophisticated mix of coordinated policies (incorporating education and skills, R&D, innovation, health, planning, transport, investment and a host of other areas) and long-term commitment that respond to the specific local circumstances. Key priorities should include the following:

Improve within-region connectivity: Strengthening agglomeration effects by better connecting major urban areas across the region, as well as improving local transport connections to make local journey times more reliable, (as is envisaged in the Strategic Transport Plan for the North). Changes to commuting and working practices triggered by COVID-19 is an opportunity to explore new ways to better connect different parts of the region through digital technologies.

Unlock demand for skills and strengthen basic conditions for creating a productive workforce: Raising the demand for, and capitalising on, high level skills by employers is critical, (including a focus on improved leadership and management). Improving the physical and mental health and well-being of the workforce is also key, with the devolved health and social care system in Greater Manchester offering a unique national test bed to align health and employment policy.

Strengthen coordination and collaboration across the region: there is a need to rebuild the region's innovation ecosystems by bringing together business, governments, universities and other institutions at a local and regional and tie them in with national institutions to work together in a coherent, coordinated and long-term manner. Lessons can be learnt here from the experience of deal based devolution in Greater Manchester and the Liverpool City Region and the emerging Innovation Greater Manchester initiative is an example for this type of approach.

Digitalisation: Manufacturing remains an important strength of the region, facing new opportunities and challenges from industrial digitalisation. Learning lessons from the Made Smarter pilot, which helps manufacturing firms introduce new digital tools and technologies to boost productivity and is being piloted in the region, will be important. Similar approaches should be extended to services sectors which are also on the verge of a digital transformation to support a technologically diverse, sustainable and productive economy.

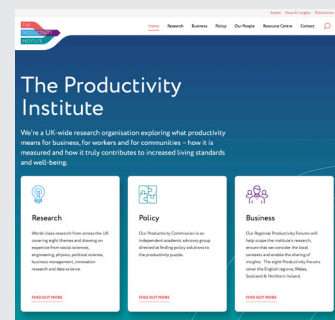
The Productivity Institute

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 where you can also sign up to receive our regular newsletter.



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