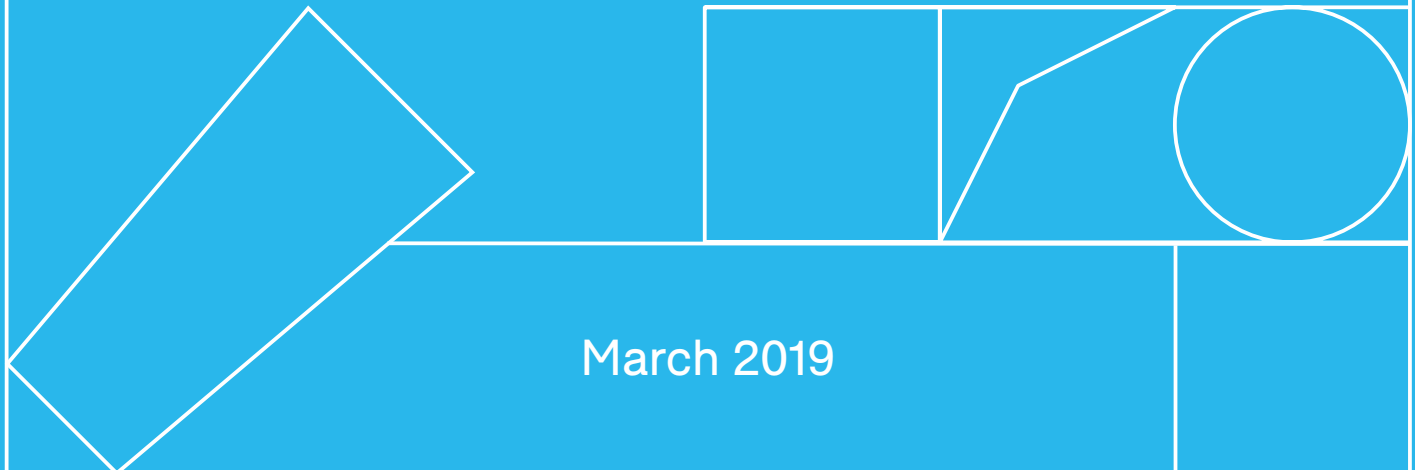


**GREATER  
MANCHESTER  
INDEPENDENT  
PROSPERITY  
REVIEW**

# **PRODUCTIVITY AND PAY RESEARCH SUMMARY**



March 2019

**THE GREATER MANCHESTER  
INDEPENDENT PROSPERITY  
REVIEW WAS COMMISSIONED  
TO PROVIDE A DETAILED AND  
RIGOROUS ASSESSMENT OF  
THE CURRENT STATE, AND  
FUTURE POTENTIAL, OF GREATER  
MANCHESTER'S ECONOMY.**

**TEN YEARS ON FROM THE  
PATH-BREAKING MANCHESTER  
INDEPENDENT ECONOMIC  
REVIEW, IT PROVIDES A FRESH  
UNDERSTANDING OF WHAT  
NEEDS TO BE DONE TO IMPROVE  
PRODUCTIVITY AND DRIVE  
PROSPERITY ACROSS  
THE CITY REGION.**

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Independent of local and national government, the Prosperity Review was carried out under the leadership of a Panel of six experts:



**Professor Diane Coyle**  
Bennett Professor of Public Policy,  
University of Cambridge, and Chair of  
the Greater Manchester Independent  
Prosperity Review



**Stephanie Flanders**  
Head of Bloomberg Economics



**Professor Ed Glaeser**  
Fred and Eleanor Glimp Professor of  
Economics, Harvard University



**Professor Mariana Mazzucato**  
Professor in the Economics of  
Innovation & Public Value and  
Director of UCL Institute for  
Innovation and Public Purpose



**Professor Henry Overman**  
Professor of Economic Geography,  
London School of Economics, and  
Director of the What Works Centre for  
Local Economic Growth



**Darra Singh**  
Government and Public Sector Lead  
at Ernst and Young (EY)

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The Panel commissioned studies in four areas, providing a thorough and cutting-edge analysis of key economic issues affecting the city region:

- Analysis of productivity, taking a deep-dive into labour productivity performance across Greater Manchester, including a granular analysis of the ‘long tail’ of low-productivity firms and low pay;
- Analysis of education and skills transitions, reviewing the role of the entire education and skills system and how individuals pass through key transitions;
- Exploration of the city region’s innovation ecosystems, national and international supply chains and trade linkages; and sources of global competitiveness, building on the 2016 Science and Innovation Audit; and
- Work to review the infrastructure needs of Greater Manchester for raising productivity, including the potential for new approaches to unlock additional investment.

The Prosperity Review’s findings and recommendations will underpin the ambitious Local Industrial Strategy that Greater Manchester is developing jointly with the Government and will inform the actions of local and national decision-makers from across the public and private, as well as the voluntary, community and social enterprise sectors in driving forward Greater Manchester’s future productivity and prosperity.

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# ABOUT THIS RESEARCH SUMMARY

This research summary brings together the central themes and wide-ranging findings from the technical reports on productivity and pay and has been developed to inform the reviewers' recommendations. The four technical reports are: *Audit of Productivity*; *Low Pay in Greater Manchester*; *Retail*; and *Adult Social Care*. This is considered together with the evidence review background report, published in November 2018, which summarised the main changes in Greater Manchester's economy before and after the global financial crisis. The research summary concludes with a section on recommendations for Greater Manchester on productivity and pay.

The research on productivity and pay has addressed the following questions:

- How have productivity trends changed within GM and the broader UK and international context, and what factors have influenced the variations in productivity?
- How has productivity varied within GM, by sector and geography and between different categories of firms?
- How does productivity relate to pay, and particularly to the extent and distribution of low pay?

Productivity and Pay Technical Reports:

- *Audit of Productivity*: Undertaken by the Greater Manchester Combined Authority research team in collaboration with the University of Manchester, drawing upon complementary work by ONS on labour productivity at firm level.
- *Low Pay in Greater Manchester*: A study on low pay and the links to productivity, carried out by the Resolution Foundation
- *Retail and Adult Social Care*: Two detailed case study reports on two contrasting sectors characterised by low productivity and low pay - adult social care and retail – undertaken, respectively, by the Centre for Decent Work and Productivity and the Future Economies Centre at Manchester Metropolitan University.

The views expressed in this report are those of the authors of the technical report inputs cited above and, as usual, errors and omissions in this report remain the responsibility of the authors alone.

This report, alongside a further two research summaries for the thematics of 'Education and Skills' and 'Innovation and Global Competitiveness', which also bring together wide-ranging subject matter, are available alongside the technical reports and wider evidence for the Greater Manchester Independent Prosperity Review at [www.gmprosperityreview.co.uk](http://www.gmprosperityreview.co.uk)

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# PRODUCTIVITY AND THE INDEPENDENT PROSPERITY REVIEW

*‘Productivity isn’t everything, but, in the long run, it is almost everything’<sup>1</sup>*

Paul Krugman’s famous, qualified endorsement of the importance of productivity to long-run economic change provides a good guide to the way it, and the links to pay, has been approached in the Review. On one hand, economic history clearly tells us that the transformation of living standards since the industrial revolution has been built upon productivity improvements enabled by growing human ingenuity and successive technological innovations. Improvements in productivity have underpinned economic competitiveness, helped boost trading performance, enabled wage growth and secured the tax base that supports public services and investments.

As the work underpinning this paper makes clear, however, we also know on the other hand that:

- Productivity growth in advanced OECD economies, including the UK, has been slowing since the mid-1960s when the transition to service-dominated economies began to gather pace,
- Within this global picture, UK productivity levels have tended to trail those attained in other advanced national economies. After a period of catch-up in the decade leading up to the global financial crisis, when productivity growth in the UK was high by international standards, the post-crisis period has seen productivity growth flat-line and the gap between UK productivity levels and those found amongst international competitors grow once more, and
- Within the UK, productivity levels in GM have long been around 10% lower than a national average that is inflated by the country’s one exceptional performer – London. The steady post-crisis recovery in output achieved in GM has been reliant on growth in employment rather than improved productivity. Growth has come largely from more work, not smarter working.

For all these reasons it is clear that the National Industrial Strategy, and the Manchester Independent Economic Review before it, were right to conclude that overall growth in productivity remains crucial to future improvements in prosperity and wellbeing, be they at the national or GM levels.

At the same time, it is also clear that productivity measurement has its limitations. In technical terms, productivity refers to the efficiency with which measurable ‘inputs’ are turned into ‘outputs’. It is calculated by dividing a measure of output, usually Gross Value Added (GVA), by a measure of input, usually based on actual or potential labour supply or a combination of labour and capital inputs. It makes a difference which measures are chosen. Previous research by GMCA, for example, has shown that GM would generate £10bn

1. Krugman, P.R. *The Age of Diminished Expectations* (Washington, DC: The Washington Post Company), 11, 1994

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more output if its productivity levels matched the UK average. 20-25% of this gap was estimated to be due to lower-than-average employment levels (i.e. it reflects lagging GVA per person of working age, including those who are not working, many of whom experience poor mental or physical health).<sup>2</sup> The rest was explained by lower-than-average productivity amongst people in work (i.e. lagging GVA per worker or per hour worked).

The work on productivity reported here focused mainly on a specific labour productivity measure – the nationally recognised, workplace-based ONS data on Real Gross Value Added (GVA) per Employment (Full Time Equivalent Employees) – because it provides the most complete and up-to-date time series available at a sufficiently granular scale.<sup>3</sup> It is important to recognise, however, that concerns are increasingly expressed about what productivity measurements like these can and cannot tell us. Most of these centre upon the adequacy of GVA as a measure of output. Amongst the most common criticisms voiced are that GVA measures:

- Do not accurately capture the value of services, and particularly of public services<sup>4</sup> whose outputs are difficult to quantify in purely monetary terms,
- Ignore both the contribution made by unpaid work to sustaining measurable economic activity and the costs that some types of productive activity can generate in terms of environmental quality and sustainability,
- Struggle to account for the importance of the free information inputs to economic activities enabled by new technologies, which improve the quality of goods and services much faster than their price (and hence the value of their output), and
- Provide no easy way of distinguishing between wealth-creating and wealth-recycling activities.<sup>5</sup>

It is in these respects that productivity, or at least the way we can currently measure it, cannot tell us everything. We should not, therefore, rely exclusively on productivity measures as indicators of the positive economic changes that industrial strategies seek to bring about. For all the imperfections of the standard data available, however, it remains the case that productivity trends will continue to be a core indicator of sustainable improvements in prosperity. It is as unwise to ignore them as it is to accept them uncritically.

2. [GMCA: Sector Deep Dives and Productivity in Greater Manchester, 2016 and 2017](#)

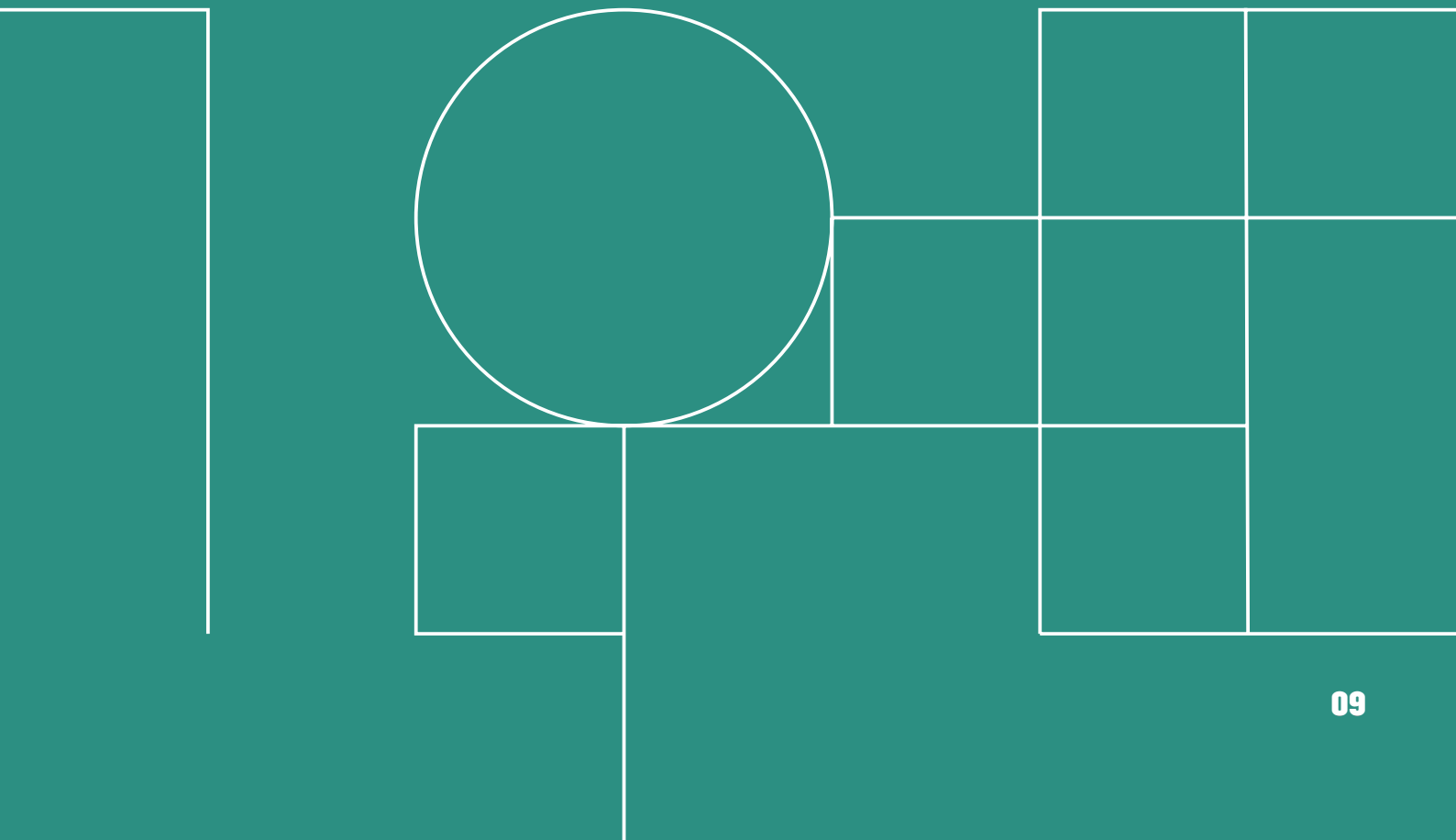
3. [It was not possible to repeat the Total Factor Productivity analysis provided by the Manchester Independent Economic Review in 2009 because no reliable, updated figures on capital stock were available.](#)

4. [For a comprehensive review, see 'Measurement of Government Output and Productivity for the National Accounts' \(The Atkinson Report\), HMSO 2004.](#)

5. [For reviews of the limitations of GVA and GDP as output measures, see Coyle, D. GDP: A brief but affectionate history, 2014, Mazzucato, M. The Value of Everything: Making and taking in the global economy, 2018](#)



# 01. PRODUCTIVITY IN GREATER MANCHESTER IN CONTEXT



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The findings of the research underpinning this paper bear out the main messages of recent, systematic academic reviews of the UK's 'productivity puzzle' and the leading commentary it has generated.<sup>6</sup> GM's experience of economic growth over the last 20 years has been impressive by the standards of the UK outside London and the South East; still more so given the deep and protracted industrial decline that preceded it. Between 1998 and 2008 real (inflation-adjusted) GVA in GM grew by 2.6% per annum, ahead of the UK (excluding London) average of 2.4% per annum; and similar to the UK figure of 2.7%. Over the same period, real productivity in GM grew by 1.6% per annum: the same as the UK and ahead of the UK excluding London (1.4% per annum). Growth was particularly strong from 2003/04 to 2007/08, during which time the gap in productivity growth between GM and the UK average closed.

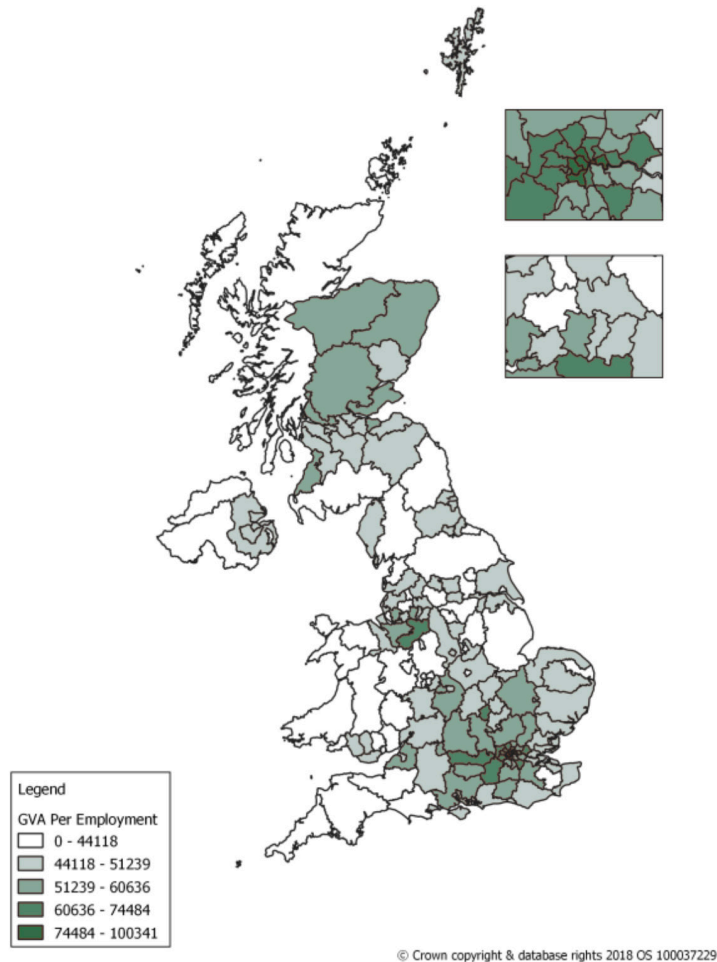
The broad pattern of productivity change in this relatively benign period is contrasted with the post-crisis era in Figure 1, which shows overall GM productivity performance relative to that of the UK, London and the UK excluding London since 1998. It demonstrates the severity of the shock caused to UK labour productivity during the financial crisis and the recession that ensued. Productivity growth at both national and GM levels has remained stubbornly low ever since. The recovery in output growth that has been achieved in recent years has depended largely on increases in employment and the gap between national and GM labour productivity growth has resumed since 2010, largely reflecting the stronger post-crisis recovery seen in London.

Figure 1: Productivity (GVA per employment) performance GM vs national benchmarks. Index 1998=100, GM vs UK, and UK excluding London 1998 to 2016 and forecast 2016 to 2018 (Greater Manchester Forecasting Model time-series, Oxford Economics, 2018)

6. For academic reviews of productivity trends at sub-national level, see Martin, R. et al, The city dimension of the productivity growth puzzle, *Journal of Economic Geography* (18), 539-579, 2018, McCann, P. The UK Regional-National Economic Problem (London: Routledge), Chapter 2, 2016. For an account of the UK productivity puzzle more generally, see Haldane, A. Productivity Puzzles: Speech by Andy Haldane, Chief Economist, Bank of England, London, July 2017

Figure 2: Gross Value Added per employment. Absolute levels, 2016, UK NUTS3 areas [London (upper) and Greater Manchester (lower) in the boxes] (Source: ONS, 2016).

The English city-region with the highest productivity levels outside London and its extensive hinterland is the area centred on Bristol. Elsewhere in England, as Figure 2 shows, GM is prominent within the small group of provincial areas that appear in the next 'tier' for productivity levels. If this map were extended to the rest of Europe, only in London would productivity levels compare with those found in the major metropolitan centres of Germany, Scandinavia, the Low Countries, Switzerland and northern Italy.



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# 02. PRODUCTIVITY WITHIN GREATER MANCHESTER

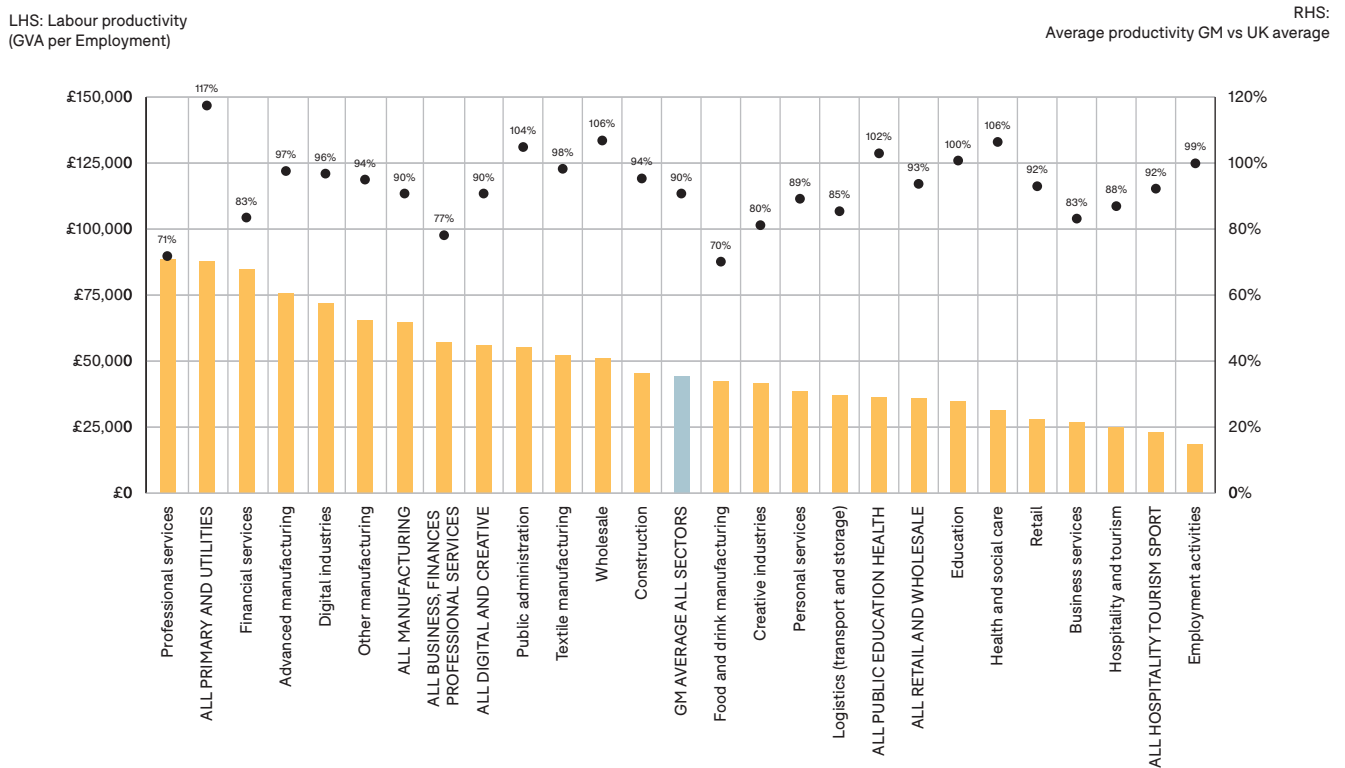


## PRODUCTIVITY BY SECTOR

As has been the case in most old industrial centres, GM has experienced a pronounced, long-run structural shift in employment away from manufacturing activities towards services. Manufacturing generally comprises higher productivity sectors, whilst productivity in the services sector varies widely but tends, in the aggregate, to be lower. GM's sectoral structure is exceptionally diverse; it is not overly reliant on a single large sector or a small number of major employers for jobs and growth.<sup>7</sup> In fact, the Krugman Specialisation Index puts GM as the most diverse city region in the UK. Nevertheless, the city region's economy does contain concentrations of work (and some key specialisms) within the broadly defined sectors of Financial and Professional Services, parts of Manufacturing (including Materials), Health Innovation, and Digital Industries.

As Figure 3 below illustrates, the five highest productivity sectors in GM are Financial and Professional Services, Utilities, Advanced Manufacturing, and Digital Industries. The lowest productivity sectors are Employment Services, Hospitality and Tourism, Business Services and Health and Social Care. Relative to UK averages – shown by the black dots in the figure – GM's productivity levels trail UK averages most in Food and Drink Manufacturing (70% of the UK average), Professional Services (71%), Creative Industries (80%), Business Services (83%), Financial Services (83%), and Logistics (85%).<sup>8</sup>

Figure 3: GVA per employment by sector in GM 2016 (Source: Greater Manchester Forecasting Model 2018, Oxford Economics. Sectors in capitals are composites of other sub-sectors)



7. GMCA: Sector Deep Dives and Productivity in Greater Manchester, 2016 and 2017

8. Greater Manchester Forecasting Model, GMFM-2018 (figures for latest actuals in the model for 2016)

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Productivity in the majority of these sectors grew in the 20 years between 1996 and 2016, but not in a way that automatically favoured the highest value activities. Of the eight sectors in which GM labour productivity grew by more than 30% during this period, six of them – employment services, manufacturing, digital and creative industries, financial services, public administration, and health and social care – saw productivity grow more strongly than in the UK as a whole. In the other two, productivity in business services grew at the same rate as in the UK as a whole, whilst growth in wholesale and retail services was a fraction below the UK level.

The Audit of Productivity work demonstrates that differences in productivity within sectors account for more significant variations in productivity than those between GM sectors. A comparative econometric analysis completed for the Audit for all UK city regions shows that:

- There is a significant relationship in all city regions between productivity and levels of human capital. Differences in higher-value employment and the utilisation of skills appear to be the most important factors driving differences in local economic performance.
- The proportion of highly-skilled residents; of managerial and professional jobs; and of science and technology jobs, are the factors most strongly correlated with higher levels of productivity.
- There is also a positive, albeit weaker correlation between higher productivity and factors such as the share of workers in the Digital and Creative industries, along with the share of new enterprises (start-ups) and high-growth firms. The share of start-ups in particular appears to be a more significant driver of productivity performance for GM, compared to other city regions.
- Further evidence on scale-ups highlights that no single sector, age of business or location accounts for success, suggesting that intangible factors such as entrepreneurs' business models, capacity, ability and confidence are critical to success.

## PRODUCTIVITY AND PLACE

The picture of productivity change varies within GM, depending upon the mix of local employment sectors and the value of the economic activities within sectors performed locally. Figure 4 compares change in output (GVA) in 1998-2008 and 2010-2016 with labour productivity change in the same periods for each of the GM districts. In broad terms, it shows GVA growth to have been highest in those districts – Manchester, Salford and Trafford – that are home to parts of the 'Regional Centre', running between Salford Quays and Manchester Sports City, where much of GM's higher-value employment is concentrated. GVA growth in these three districts exceeded the national average in GM's 'catch-up' period between 1998 and 2008. Only in Manchester, however, did this continue to be the case in the more recent (2010-16) period.

Trends in labour productivity are subtly different. As the last two columns in the table demonstrate, these three districts had the highest levels of labour productivity in GM relative to UK and UK-excluding-London averages in the most recent year for which data is available (2016). The productivity trends that led up to this point, however, show considerable variation. Whereas Manchester and Trafford were amongst the GM districts in which annual productivity growth

equalled or exceeded the UK average during the earlier period, so were Tameside and Bolton. In the most recent period, in which GM-wide labour productivity fell, Rochdale, Salford and Wigan experienced productivity growth above UK average levels and that of Bury and Oldham equalled that of the UK excluding London. In all other districts bar Bolton, where productivity flat-lined in 2010-16, labour productivity declined, most likely reflecting faster growth in low value, low productivity jobs.

Figure 4: Compound annual growth rate in real-GVA and real-GVA per Employment, 1998-2008, 2010-2016 (Source: Greater Manchester Forecasting Model, GMFM-2018)

Real-GVA	GVA growth % per annum		GVA per employment growth % per annum		GVA per employment as % of UK average (2016)	
	1998 to 2008	2010 to 2016	1998 to 2008	2010 to 2016	UK average = 100%	UK excluding London = 100%
Bolton	2.0%	1.0%	1.6%	0.0%	79.6%	86.9%
Bury	2.1%	1.9%	1.5%	0.4%	89.6%	97.8%
Manchester	3.7%	3.0%	2.0%	-0.1%	90.1%	98.3%
Oldham	1.5%	2.1%	1.3%	0.4%	87.3%	95.3%
Rochdale	1.7%	1.3%	1.1%	1.2%	87.2%	95.2%
Salford	3.1%	1.7%	1.4%	1.4%	96.2%	105.0%
Stockport	2.7%	-1.2%	1.2%	-1.4%	89.6%	97.8%
Tameside	2.1%	-1.4%	1.9%	-1.0%	89.7%	97.9%
Trafford	2.8%	1.8%	1.8%	-0.6%	99.4%	108.5%
Wigan	2.0%	1.2%	1.1%	0.8%	84.2%	91.9%
GM	2.6%	1.5%	1.6%	<0.1%	89.9%	98.1%
London	3.9%	3.3%	2.4%	0.3%	142.1%	-
UK	2.7%	2.1%	1.6%	0.5%	100%	-
UK excluding London	2.4%	1.7%	1.4%	0.4%	-	100%

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## PRODUCTIVITY BY FIRM TYPE

A third way in which labour productivity varies, other than by sector and geography, is by firm. Analysis of the pioneering work undertaken for this review by ONS on firm level data shows that productivity differences within industries are more important than the mix of industries in an area in explaining overall differences in productivity. The analysis reveals specific characteristics are associated with higher and lower productive firms.

There is no clear relationship between productivity and firm size or age. However, firms over 20 years of age in GM typically fall into one of two categories, either micro-size or large (over 250 employees), suggesting that there are a significant proportion of older small firms that have not decided to or been able to scale-up.

There are highly productive and very low productive firms in all industry sectors in GM. However, there is a clear trend in the likelihood of firms falling in the top or bottom 20% of the productivity distribution based on a broad industrial classification:

- Firms in Business and Professional Services, Digital and Creative Industries, Construction, Health Innovation, and Manufacturing are more likely to be **most productive**.
- Firms in Hospitality, Tourism, and Sport, Retail and Wholesale, and Health and Social Care are more likely to be **least productive**.

There is little difference in the productivity distributions of firms in the routine economy (retail, hospitality etc), which are almost identical between city regions, with the exception of London. The main characteristics associated with higher performing firms are those that have international trade (exporting). This applies across all business age groups and firm sizes.

There are approximately 32,000 'high productivity firms',<sup>9</sup> accounting for 35% of all businesses in GM.<sup>10</sup> Further analysis shows that there were 1,500 scale-ups (firms with growth in turnover and/or employment greater than 20%).<sup>11</sup> These firms employed 142,000 with a total production value of £19.2 billion in GM in 2017. The ratio of scale-ups per 100,000 residents is similar to the UK average (85), and scale-ups are found across all sectors in GM, but particularly within: Retail (15%), Business Services (14%), Health (12%), Manufacturing (10%), Professional, Scientific, and Technical Services (10%). However, at £135,000 average turnover per employee, scale-ups in GM are much lower value on average than London (£606,500), and the national average excluding London (£159,000).<sup>12</sup>

Foreign-owned firms in GM are, on average, more likely to have higher productivity than non-foreign owned firms, and this applies across all sizes of firm. However, the data also shows that these types of firms are more likely than the national average to be found in the bottom 20% of least productive firms across all GM, suggesting a role to target higher value investment. The total value of GM goods exported in 2017 was £6.7 billion, a 5% increase from

9. High productivity is defined as productivity per employment that is higher than the GM average for all sectors in GMFM-2018
10. GMCA analysis of BvD FAME and Companies House data 2017/18 (or latest accounts).
11. Scale-ups are defined as firms with annualised growth in turnover or employment greater than 20% per annum over a 3 year period
12. It is important to note that turnover data can be 'spiky' within any one year and that coverage is often incomplete (e.g. in omitting micro firms)



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2016 (rising by 16% between 2015 and 2016). This places GM 19th out of 40 UK NUTS2 regions in terms of total export value. However, the value of GM's export value per head of population is £2,380 – lower than the UK average £4,972 and behind comparators Birmingham (£6,141), Bristol (£4,639), and Leeds (£2,582).<sup>13</sup> The latest GM Business Survey (2017) estimates that 16% of firms in GM trade internationally – (i.e. export and or import; and 14% export; an estimated 10,000 exporters).<sup>14</sup>

The proportion of respondents that trade internationally over recent years had increased from 20% in 2012 to 24% in 2016, falling back in 2017. The majority (87%) of businesses involved in international trade have links with the EU, 47% have links with North America, and 45% with non-EU European states. The survey also indicates that the majority of SMEs focus on domestic markets.<sup>15</sup>

The UK continues to outperform other nations within Europe for Foreign Direct Investment (FDI); however, its lead is dropping. Within the UK, London continues to dominate as a destination for foreign investment (2.2 times more than the North of England). However, outside London, GM continues to lead by a strong margin among UK cities with 45 FDI projects in 2017, 55% more than the next highest city (Edinburgh, 29).<sup>16</sup> GM also has a strong representation of Foreign Owned Firms (FoFs). Analysis of Companies House data suggests that between 3,000 and 5,000 are foreign-owned with a total value of £37–£44 billion, employing between 172,000 to 194,000 depending on definition and data source.<sup>17</sup> Of these, firms were more likely than the GM average to be foreign owned if they are in Health Innovation (13% of firms in this sub-sector in GM), Logistics (41%), Retail & Wholesale (14%).

## PRODUCTIVITY AND HEALTH

By its nature, labour productivity measurement ignores those people of working age who are not in the formal labour market. It also effectively glosses over those whose productivity at work is constrained by physical and mental health challenges. The benefits that improvements in health can bring for productivity performance are therefore largely hidden from view in standard productivity analysis. This is despite evidence to suggest they would be significant, and a major contributor to the greater sharing of the benefits of employment in areas of GM where de-industrialisation has left a legacy of ill-health, particularly amongst over-50s. A recent high-level review of the links between health, wellbeing and productivity with a particular focus on the cities of the North of England, for example, estimated the productivity gap between the North and the UK average would be reduced by 30% if participation in the workforce was raised by addressing ill health. It also found that working people in the North experiencing

13. HMRS, Data on the value of exports for Greater Manchester in 2015 to 2017, 2018

14. Number of exporters taken from HMRC (NUTS2) statistics <https://www.uktradeinfo.com/Statistics/RTS/Pages/Analysis.aspx>

15. Greater Manchester Business Surveys from 2011/12, 2012/13, 2014/15, 2015/16, and latest is 2017

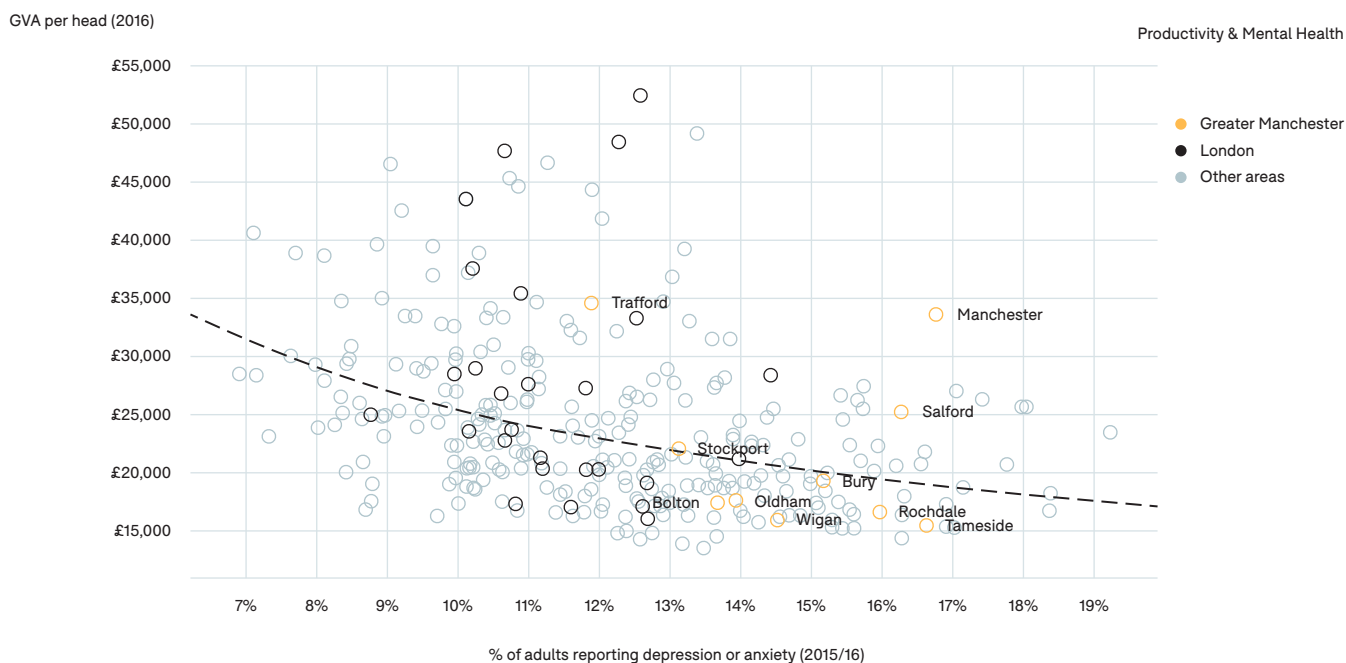
16. EY, UK Attractiveness Surveys 2018

17. GMCA analysis of BvD FAME, Duedil firm data 2017/18; and ONS Annual Business Survey covering Foreign Owned Firms in GM

a spell of ill health were 39% more likely to lose their job compared to their counterparts in the rest of England.<sup>18</sup>

Figure 5, below, provides one illustration of the relationship between ill health and productivity, in this case relating to mental health. The graph plots the level of GVA per head of resident population in 2016 against self-reported incidences of depression and anxiety within each local authority district in England and Wales in 2015-16. It demonstrates that there is a correlation between lower productivity and higher incidences of mental ill-health. GM districts broadly conform to the 'expected' relation between the two measures indicated by the line on the graph. The three exceptions are Manchester, Salford and Trafford – the districts with high productivity on this measure, by GM standards. In all three cases, incidences of reported mental ill-health are significantly higher than in most districts with comparable productivity levels, indicating that GM as a whole faces challenges in relation to mental health that are more acute than in other areas of the country. A similar picture emerges from self-reporting of the incidence of long-term limiting illnesses and musculo-skeletal health problems.

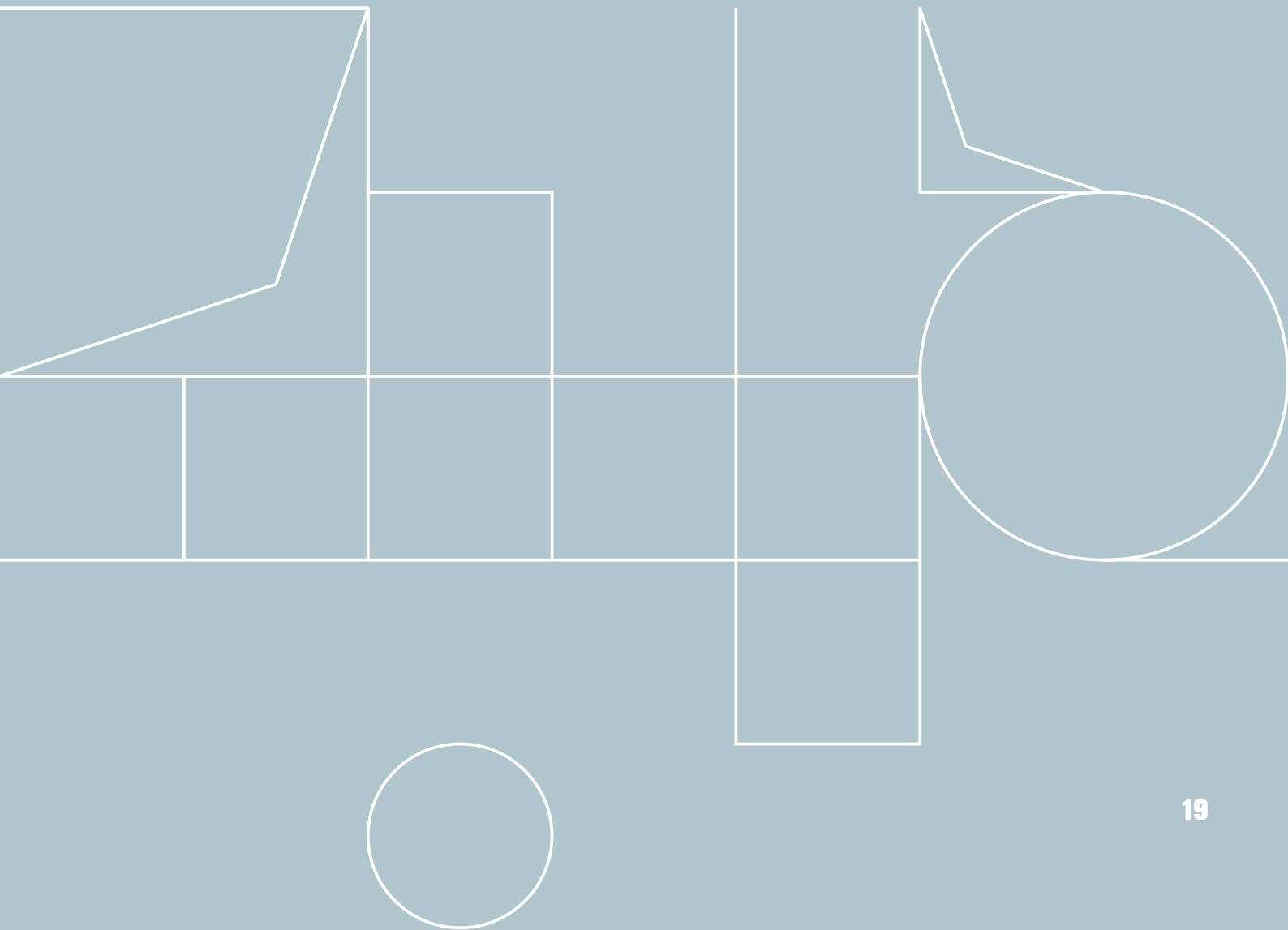
Figure 5: Productivity (GVA per head of resident population) and residents with mental health issues – depression and anxiety, GM and all local authorities in England & Wales (Source: Public Health England Fingertips).



18. Bambra, Munford, Brown et al Health for Wealth: Building a Healthier Northern Powerhouse for UK Productivity, 2018

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# 03. PRODUCTIVITY AND PAY



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Part of the explanation for the sluggish recent growth in productivity in GM lies in the changing balance of employment between different sectors. The share of low productivity sectors in GM – defined as sectors with lower than £30,000 GVA per employment, at 2013 prices – increased from 37.7% in 2005 to 41.8% in 2015. The employment share of each of the main low productivity employment sectors has increased over this period, except for Retail, where it has remained at the same level. The increase in employment share has been highest in Health and Social Work (1.9 percentage points) and in Administrative and Support Services (1.5 percentage points).

Overall pay levels and salary growth in GM lag behind UK averages. Workers in GM earn on average around 10% per hour less than the UK median. Salary growth between 2013 and 2018 in GM was 7.8%, compared to 9.4% across the country. The real value of the annual median wage in GM in 2017 was around £1,500 less than in 2008.

19% of jobs in GM were paid less than two thirds of the national median wage in 2017; a higher proportion than in better performing UK urban areas (e.g. London 10%, Bristol City Region 16%), but lower than in most comparator city regions (20-24%). The proportion of jobs offering low pay fell in eight GM districts between 2012 and 2017 and did not increase in the other two (Rochdale & Stockport). The proportion of local jobs that were low paid in 2017 was highest in Rochdale (26%) and lowest in Manchester and Salford (14%).

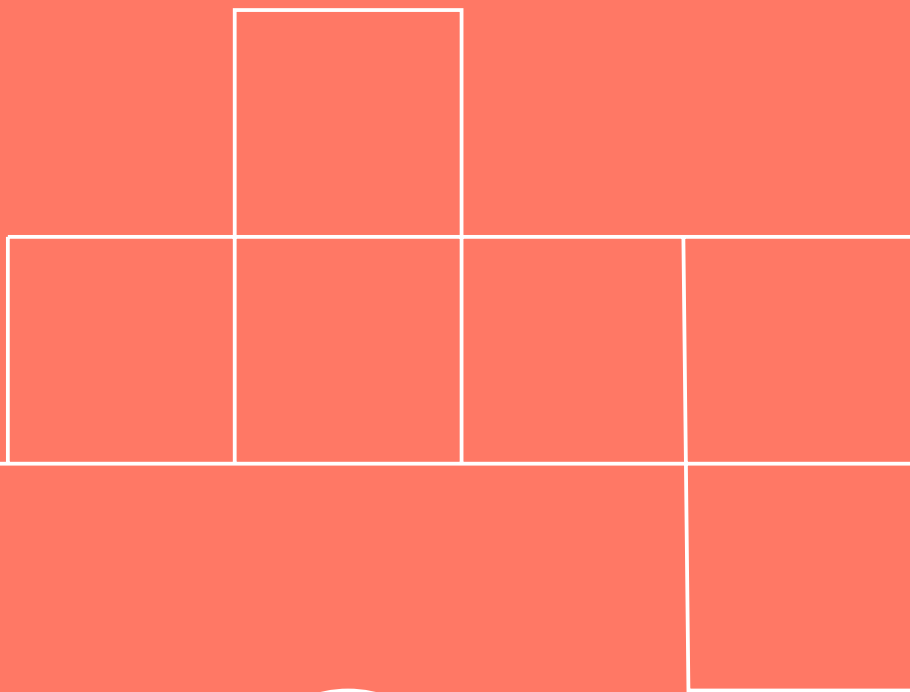
The majority (58% in 2017) of low paid workers in GM are women; a lower proportion than the UK average and other UK city regions. The proportion of single parents (overwhelmingly female) in GM who were low paid in 2016-18 (33%), however, was higher than the UK average and those of other city regions. It was also significantly higher than amongst adults in other types of GM household. A higher proportion of black workers (33%) in GM were lower paid than their Asian (27%) and white (21%) counterparts in 2016-18, although the number of people in the latter group (215,000) far exceeded those for Asian (20,000) and black (15,000) workers.

31% of GM workers with qualifications at GCSE level or below, 2016-18, were low paid, similar to the national average (30%). The proportion of graduates in GM who were low paid in the same period (10%), however, was marginally higher than in most other city regions. There is significant turnover of staff within low paid work. 31% of low paid workers in 2017 had changed jobs in the previous year. Around a third of low paid GM workers were found to have progressed out of low paid work during a 'snapshot' period between 2011 and 2015, during which time a similar number of people moved into low paid jobs.

The majority of GM's low earners work in one of three low productivity sectors: retail and wholesale (27%), hospitality, tourism and sport (21%) and health and social care (15%). A detailed comparison of retail and adult social care sectors shows they share a number of characteristics. Both rely on women workers, often working part time and/or on zero hours contracts and combining work with caring responsibilities. Both experience relatively high staff turnover, particularly amongst recent entrants to the workforce. Recent improvements in productivity, from a low base, however, have been accompanied, in the case of adult social care, by overall job losses amongst a lower skilled and older workforce, driven by intense cost competition and funding pressures. Within retail, it has coincided with overall job growth and greater deployment of higher level skills amongst a younger and relatively better-qualified workforce. The contrasts between the two point up significant differences in the degree to which public funding and procurement shape, and can potentially help reform, business models.

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# 04. IMPLICATIONS FOR INDUSTRIAL STRATEGY



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Each of the authors of the individual research projects whose findings underpin this review paper set out their view of the implications for GM industrial strategy and for the future approach that might be followed by the GM family of organisations more generally. Rather than repeat these, it is more useful, here, to identify the common themes emerging from their observations so as to clarify the choices and trade-offs to be addressed by the Reviewers in their report. These are set out, below, organised by a series of key questions.

## **HOW IMPORTANT SHOULD PRODUCTIVITY IMPROVEMENT BE TO INDUSTRIAL STRATEGY?**

In many respects, the findings of the work on productivity bear out the key messages from the Manchester Independent Economic Review and the analysis on which subsequent Greater Manchester Strategies were built. Where productivity improvements have been achieved, in a context that has been far more challenging than the one that preceded the global financial crisis, they have been driven by continued growth in output and employment in high value economic activities, concentrated substantially but by no means exclusively in the Regional Centre. The positive effects that the good quality, well-rewarded work associated with these activities have generated have been felt across GM (and beyond) and the potential for further GM-wide productivity improvements, along with the prospects for spreading the benefits of high value employment growth to all areas of GM, depend substantially on a continuation and strengthening of these positive trends. This has implications for a broad range of policy areas, including transport, planning and housing, and trade and inward investment.

At the same time, the analysis makes it clear that the majority of GM's resident labour force who do not work in high value activities depend much more on a range of local public and private consumer-facing jobs, largely in services, that tend to be characterised by lower productivity and lower pay. The challenge of improving job quality, and in many cases the quality of services experienced by consumers and clients, in these areas is more subtle than the pursuit of productivity gains alone. Over the long term, it should be the case that efforts to support the development of new business models and more effective service integration and management practice in what many call the 'foundational economy' should result in productivity improvement. It is more likely, though, that this long term outcome will be achieved through focusing on different, shorter-term goals. GM's Good Employment Charter is one example of the way an Industrial Strategy, broadly conceived, can tackle the challenges of low pay and low productivity, but it also has implications for work in a variety of fields, including education and training, business advice and public service reform.

Taken together, these observations suggest that productivity measurement, at GM-wide and lower levels, should continue to be key to future evaluation and monitoring of progress toward Industrial Strategy goals. Continued joint work with ONS and other relevant data providers to improve the quality, reliability and timeliness of data will play an important role here. As is already the case with the evaluation arrangements linked to the Greater Manchester Strategy, however, productivity data needs to be combined with alternative measures that relate more directly to policy and programme ambitions. Productivity gains are best seen as an outcome, rather than an exclusive goal, of Industrial Strategy.

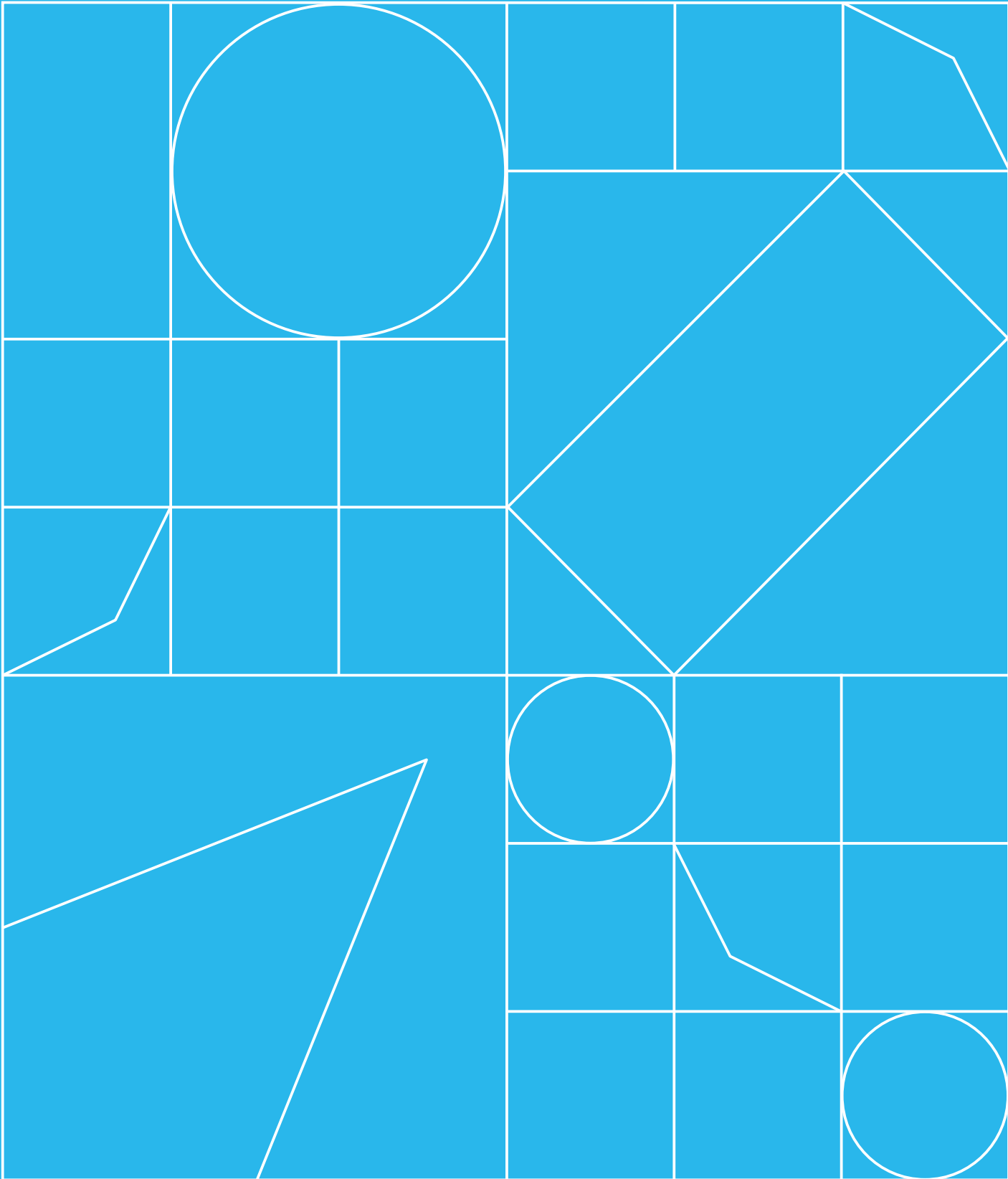
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## SHOULD INDUSTRIAL STRATEGY BE ABOUT 'PICKING WINNERS'?

The diversity of the GM economy, along with the sheer pace of change and the limited levers that are available to the GM family of organisations and their partners in influencing it, mean that Industrial Strategy needs to exercise caution in prioritising particular economic sectors and activities. Where there are clearly demonstrable niche strengths that are of national or international importance, and can feasibly be built upon, there is a case for designing specific measures that can realise clear economic potential. The experience of the last two decades, however, suggests that public service providers in GM have been more effective in supporting positive economic changes when they have focused on the development of assets that are of general benefit – to residents as well as businesses and organisations – rather than narrowly-conceived sector strategies. Furthermore, whilst past national strategies have identified specific industrial sectors as 'vertical' components, the Government's current Industrial Strategy has identified four Grand Challenges in their place. Such a challenge-based strategy can not only generate new cross-sectoral innovation to develop solutions to societal challenges, but also generate economic and technological spill-overs. These lessons need to feature in Industrial Strategy design, particularly if it is to help spread the benefits of economic change that are most likely to result in productivity gains in the longer term. For example this could be by improving educational attainment, skills development and utilisation, environmental quality and health outcomes.

## HOW CAN INDUSTRIAL STRATEGY RECONCILE THE FEASIBLE AND THE DESIRABLE?

The final, general observation arising from the work on productivity is the need, in the short term, to continue with incremental improvements that can be achieved with the current powers and resources that the GM family of organisations has available. At the same time, it is also maintaining a clear focus on the way in which a broader range of resources that are, or might in future be, devoted to GM, are aligned more effectively. Again, GM's experience over the last two decades illustrates the benefits of devolution and much more effective local integration of the investments and policies pursued by national as well as local government. Any Industrial Strategy aiming to achieve the degree of economic rebalancing that successive UK Governments have aspired to, needs to have a clear case as to why it can improve economic outcomes in GM.



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