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Life in the slow lane

Assessing the UK's economic and trade performance since 2010

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June 2024

Acknowledgements

This briefing note is the third output in a programme of outputs designed to put the upcoming UK general election in context, supported by the Nuffield Foundation. We would like to thank Mark Franks and Anvar Sarygulov from Nuffield for advice and support. We would also like to thank the Resolution Foundation's Macroeconomic Policy Unit Associates (Kate Barker, Wendy Carlin, Jason Furman, Toby Nangle, Jumana Saleheen, Silvana Tenreyro, Gertjan Vlieghe and Tony Yates) for taking part in a roundtable discussion of the paper, and to thank those who took part in the trade roundtable. The authors have also benefited from conversations with colleagues at the International Monetary Fund. Contributions and comments from colleagues at the Resolution Foundation are gratefully acknowledged, particularly: Mike Brewer, Sophie Hale, Gavin Kelly and James Smith. All views and errors remain those of the authors.

The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. It funds research that informs social policy, primarily in Education, Welfare, and Justice. The Nuffield Foundation is the founder and co-funder of the Nuffield Council on Bioethics, the Ada Lovelace Institute and the Nuffield Family Justice Observatory. The Foundation has funded this project, but the views expressed are those of the authors and not necessarily the Foundation.

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E. Fry, S. Pittaway & G. Thwaites, *Life in the slow lane: Assessing the UK's economic and trade performance since 2010,* Resolution Foundation, June 2024

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Summary

It is already clear that the state of Britain's economy is central to the 2024 general election. In surveys, voters rank the economy as the most important issue facing the UK right now, ahead of both immigration and health. So, in this briefing, we evaluate the UK's economic record since 2010, explore how it has evolved since 2019, and identify the key headwinds and tailwinds that Britain will face in the next parliament.

Since the turn of the year there has been good news about the economy – but looking over a longer period, stagnation remains the key challenge

The Prime Minister has pointed to Britain's return to growth in the first quarter of 2024, which marks the end of a technical recession, as evidence that Britain's economy is going 'gangbusters'. And it's true that Britain doesn't look too bad compared to international peers: the UK grew faster than other G7 economies in the first quarter of 2024, and the International Monetary Fund (IMF) has upgraded the UK's 2024 GDP growth forecast, predicting that the UK will grow faster than other European G7 economies until 2029 (although slower than the US or Canada). But the public aren't convinced: despite this good news, more people (37 per cent) think the economy will get worse over the next 12 months than think it will get better (33 per cent).

A single quarter of growth doesn't tell the whole story, however – what matters is the big picture of how the economy has been performing since 2010, where the story remains one of stagnation since the financial crisis. In this context, what ultimately matters

for household living standards is not GDP growth but growth in productivity, a key determinant of long-run wage prospects. On this measure, the 0.4 per cent annual growth rate in productivity since 2007 is the lowest growth rate in productivity over an equivalent period in 200 years (since 1826), and this has left the average real wage £14,400 a year below its pre-financial crisis trend. It is this longer-term stagnation, combined with the UK's relatively high inequality, which has left low-to-middle income households substantially poorer than their counterparts in Germany and France.

Headline GDP growth has been in the middle of the pack of rich countries, but GDP per person has been weaker

To a large degree, the challenge of weak growth is common across rich countries, with Britain's record since 2010 solid, if unspectacular. Real GDP grew by an average of 1.5 per cent per year between 2010 and 2023, putting us third in the G7, behind the US and Canada but ahead of France, Germany, Italy and Japan, and roughly at the median among a wider group of high-income OECD countries. Conversely, including the UK's (relatively bad) financial-crisis recession makes the comparison a bit less favourable – so that Germany draws level with us – but not much less.

But our growing population flatters the UK's performance. The population grew by 0.7 per cent per year between 2010 and 2023, equivalent to 6 million more people. This was the fastest rate of population growth for a century, and three-quarters of it was driven by migration, with the 0.5 percentage point contribution the biggest on record. To the (large) extent that the extra people in the UK have added to the labour force and found jobs, this immigration made the economy bigger but didn't make individual households substantially richer.

The result is that, in real, per-person terms, GDP only grew by 0.9 per cent per year on average over 2010-2023, putting us behind the US and Germany in the G7, countries that started this period already richer than us. More recently, real UK GDP per person actually fell by a cumulative 1.2 per cent between Q4 2019 and Q1 2024. The whole world faced a pandemic and a surge in food prices, and Europe was also hit by an energy crisis, but the UK has performed relatively poorly since 2019 in the face of these common shocks, compounding some long-standing weaknesses.

Behind our mediocre record on GDP per person, rising employment – until the pandemic - obscured an atrocious record on productivity

During the 2010s, the UK experienced an employment boom. Higher workforce participation, lower unemployment and longer average hours more than offset the drag from an ageing population. This rise in employment was concentrated among lower-income households, women and ethnic minority groups. The result was that hours worked per person rose by almost 8 per cent over that decade, second only in the G7 to the US.

The reason that our growth in GDP per person was only mediocre in the face of this exceptionally strong performance on employment was that it was offset by exceptionally weak productivity. Labour productivity (measured as GDP per hour worked) increased by an average of 0.6 per cent per year in the 2010s, compared to 2.2 per cent in the decade leading up to the financial crisis, slower than every country in the G7 bar Italy. This terrible productivity performance is the main reason behind the unprecedented stagnation in real wages described earlier. It meant that in the 2010s, we had to work more to get incomes to grow; before the financial crisis, fast-growing productivity gave us the possibility of both increased leisure time and more money to spend.

Since the pandemic, productivity growth has continued to be weak in the UK, but it is more in line with the experience of other large rich countries. Our spectacular employment growth has gone into reverse – indeed, this reversal in employment gains accounts for nearly all of the sharp slowdown in per-person GDP growth from the 2010s to the 2020s. So, the convergence with other countries has not been for the right reasons. Many other countries – with the notable exception of a rampant US – have converged towards the UK's dismal rates of productivity growth, although the UK's level of productivity remains around one-sixth lower than the average of France, Germany and the US.

Britain's productivity slowdown is broad and deep

Labour productivity depends on the capital equipment that workers have at their disposal (capital per worker), and on the efficiency with which all productive resources – capital and people – are used (so-called 'total factor productivity', or TFP). Both have played a role in the UK's slowdown in labour productivity growth. In the 2010s, TFP growth slowed sharply, while the UK's rock-bottom investment rate meant that capital deepening contributed almost nothing to productivity growth. Since the pandemic, TFP growth has slowed almost to zero, while the sharp fall in labour supply has boosted capital per worker somewhat. The slowdown has been fairly widespread across sectors, although a few big ones – especially manufacturing, finance, and IT and communications – account for much of the total.

Since the pandemic, UK exceptionalism has shifted from productivity to trade

While the UK now looks less exceptional on productivity growth, the UK's post-pandemic trade performance has been very different from other advanced economies. In particular, the UK has skipped the global boom in goods trade, although we have maintained our specialism in services.

The UK missed out on the unexpected surge in goods trade post-pandemic enjoyed by advanced economies. The pandemic caused people around the world to switch to consuming trade-intensive goods in lieu of experiences like travel and eating out, reviving goods trade from its lethargic growth in the 2010s. Between 2010 and 2019, UK goods exports grew slightly slower than the OECD average. But since 2019, Britain's relative performance in goods exports has tanked, growing at just 1.1 per cent a year, around a fifth of the rate of the OECD average (of 5.3 per cent).

Meanwhile, UK services trade has grown more normally when compared with other advanced economies since 2010. Between 2010 and 2019, the UK's services exports slightly lagged the OECD average (the UK grew at 3.9 per cent per year, while OECD countries grew at 4.8 per cent). But UK services trade has boomed since the pandemic, with exports increasing by 7.8 per cent each year since 2019, faster than the OECD's services exports (which grew by 5.4 per cent each year). This has resulted in the UK ending 2023 with the same market share of OECD services exports as in 2010 (10.7 per cent in 2023 compared with 10.6 per cent in 2010). However, the weakness in goods trade has offset services strength meaning that the UK's trade openness has declined by 0.7 percentage points since 2019, compared with a 1.2 percentage point rise for G7 countries excluding the UK.

Some argue that the UK's stagnant trade growth stems from our failure to sell what people want to buy. The argument here is that Britain's services exports such as financial services and consulting, and its goods exports such as cars and chemicals, are out of favour internationally. But the data does not back this up. While it is true that the UK's goods exports have been weak, the majority of this weakness since 2019 (two-thirds) is due to the UK's declining market share in the products we sell internationally. It's not the case that people no longer want to buy the sorts of goods that are typically made in the UK, it's that people are no longer buying them from the UK. Indeed, had the UK had maintained its market share in the products the UK sells, then our goods exports would have grown by $64 billion between 2019 and 2022, rather than shrinking by $4 billion. Acknowledging Britain's weakness in goods trade and normal performance in services is the first step to weighing up the growth prospects from trade over the next parliament.

The tailwinds that buoyed UK growth in the 2010s can no longer be taken for granted

The need to revitalise growth is something that both main parties agree on. But the next parliament will face different dynamics to those in the 2010s.

First, the next parliament may have to do without the employment boom that flattered growth in the 2010s. Although the UK population is projected to grow by 1.8 million people (2.7 per cent), over the next parliament, the number of hours worked isn't expected to rise as quickly, as population growth is offset by the population becoming older and sicker. On the bright side, the UK entered the 2020s as a younger nation than countries like Japan, Italy and Germany.

Second, both main parties agree that low overall investment is holding the UK back. Chancellor Jeremy Hunt's 2023 Autumn Statement included 110 growth measures, many of which had the stated aim of increasing business investment. And Rachel Reeves' Mais lecture highlighted that we have to turn around Britain's low investment, if we are to return to growth. While these plans are welcome, it is not yet clear that either party has a strategy that meets the scale of investment needed in the decade ahead. To put this in perspective, to merely halve the gap between Britain's low investment rate and the average of the G7, Britain would need to invest £60 billion (2.2 per cent of GDP) more per year across the public and private sectors. But no party is confronting the trade-offs that come with higher investment on this scale. Paying for this shift without increasing the current account deficit – which is already the fifth largest in the OECD as a proportion of GDP, behind only Chile, Latvia, Greece and New Zealand – would mean saving more and consuming less.

Third, any recovery in goods trade will need to confront the twin challenges of global trade fragmenting along geopolitical lines, at the same time that the UK is confronting new trade barriers with our closest trading partner. The UK is no longer diversifying goods trade partners towards those politically unaligned, following the lead of the US and China. But, at the same time, 57 per cent of manufacturing businesses are still wrestling with the additional paperwork, customs duties, and border checks which have increased exporting challenges post-Brexit. The UK can take advantage of global services exports growth, which is both less dependent on EU trade, and expected to outpace goods exports in the coming decade. Between 2022 and 2035, global services exports are expected to double (increase by 116 per cent), while goods exports increase by 64 per cent.

A recent history of stagnation means the UK has scope to catch up

In the face of the UK's recent past, and the ongoing challenges we face, it is easy to be pessimistic about prospects for future growth. But the UK's disappointing productivity performance in the 2010s offers a silver lining, if not a silver bullet: the potential for catch-up growth. Productivity, as measured by GDP per hour, is 13-19 percent higher in the US, Germany, and France, indicating significant productivity gains that the UK can aim for. Indeed, if the UK moved to the average productivity of these countries, this would result in a boost in productivity of 17 per cent. With the ability to deliver growth by expanding labour supply unlikely to be repeated, a great deal hangs on the future of productivity growth in the UK if we are to avoid another decade of stagnant wages.

TABLE 1: **Summarising the UK's economic performance since 2010**

	UK rank among G7	Average annual growth, 2010-2023: UK*	Average annual growth, 2010-2023: G7 ex UK*
GDP	3	1.5%	1.4%
GDP per capita	4	0.9%	1.0%
Labour productivity	5	0.6%	0.8%
Employment rate**	4	5.1 percentage points	5.8 percentage points
Goods trade***	7	1.7%	3.1%
Services trade	4	4.1%	3.7%

* All in real terms (chained volume measures).
** Employment rate growth in percentage points comparing Q4 2009 with Q3 2023 (as full year comparable data not yet available).
*** Includes precious metals, which particularly affects UK goods trade. Excluding precious metals, UK goods trade growth was just 0.6 per cent annually.

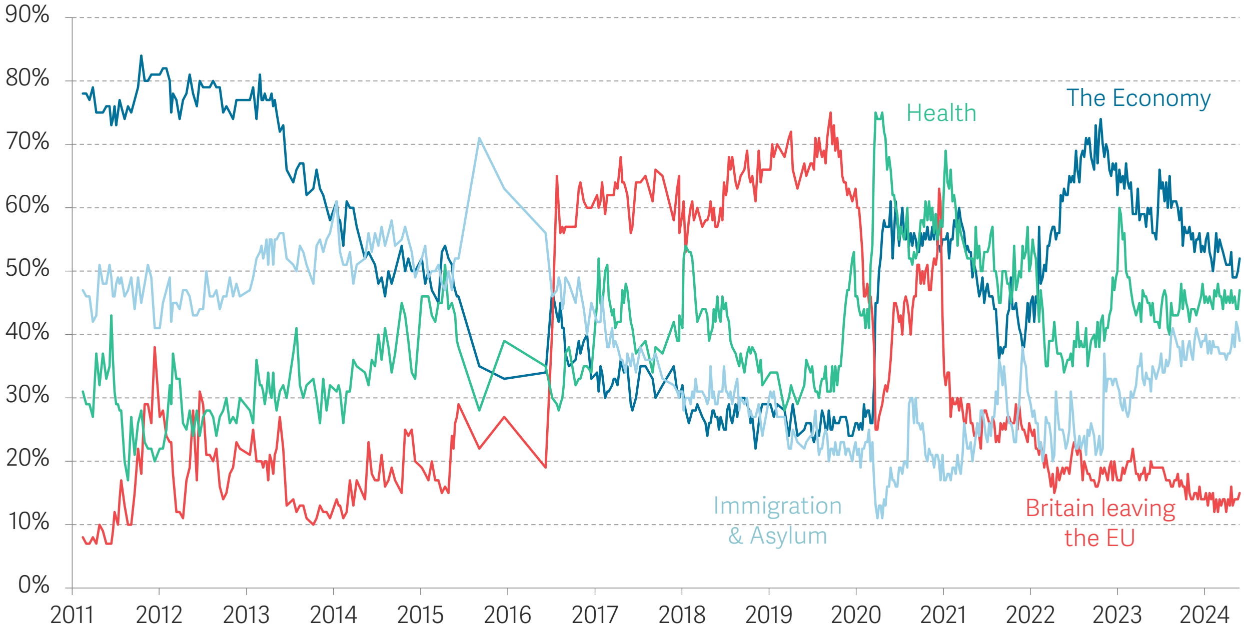
SOURCE: RF analysis of OECD; ONS; BLS; StatCan; Eurostat; JIL; and IMF WEO.

The state of the economy is central to the election debate

The voters have decided, and it's the economy that tops the list of the most important issues facing the country during the 2024 general election. As shown in Figure 1, polling from YouGov suggests that since 2022, the economy has been more important to voters than health, immigration and asylum, and certainly Britain leaving the EU.[1] At the end of May, around half of those polled (52 per cent) ranked the economy as one of the top three issues facing the country, a touch higher than the share of people that selected health or immigration and asylum (47 per cent and 39 per cent respectively).

FIGURE 1: **It's the economy, stupid!**

Proportion of adults selecting each issue as one of their top three most important: UK



NOTES: Responses to the question 'Which of the following do you think are the most important issues facing the country at this time? Please tick up to three.'
SOURCE: RF analysis of YouGov, The most important issues facing the country.

It is unsurprising that British voters are particularly concerned about the economy after such a tumultuous few years for the UK. Britain exited the pandemic straight into the cost of living crisis, a European energy crisis, rocketing food prices and rising housing costs, adding layers of pressure for households.[2] Although inflation fell back within the Bank of England's target range in April 2024, the legacy of the cost of living crisis is

1 Other polling organisations that ask about voters' priorities also find the economy is at the forefront of voters' minds. When polled by Ipsos in May 2024, 35 per cent of respondents listed 'NHS/Hospitals/Healthcare' as an important issue facing the country today, slightly more than the proportion that listed 'Inflation/Prices' or 'Economy' (29 per cent and 28 per cent respectively). However, when asked about the single most important issue facing Britain, 'Inflation/Prices' was the most common answer (17 per cent), with 'Economy' just behind (14 per cent) and 'NHS/Hospitals/Healthcare' in third place (11 per cent). See Ipsos, Ipsos Issues Index, May 2024.

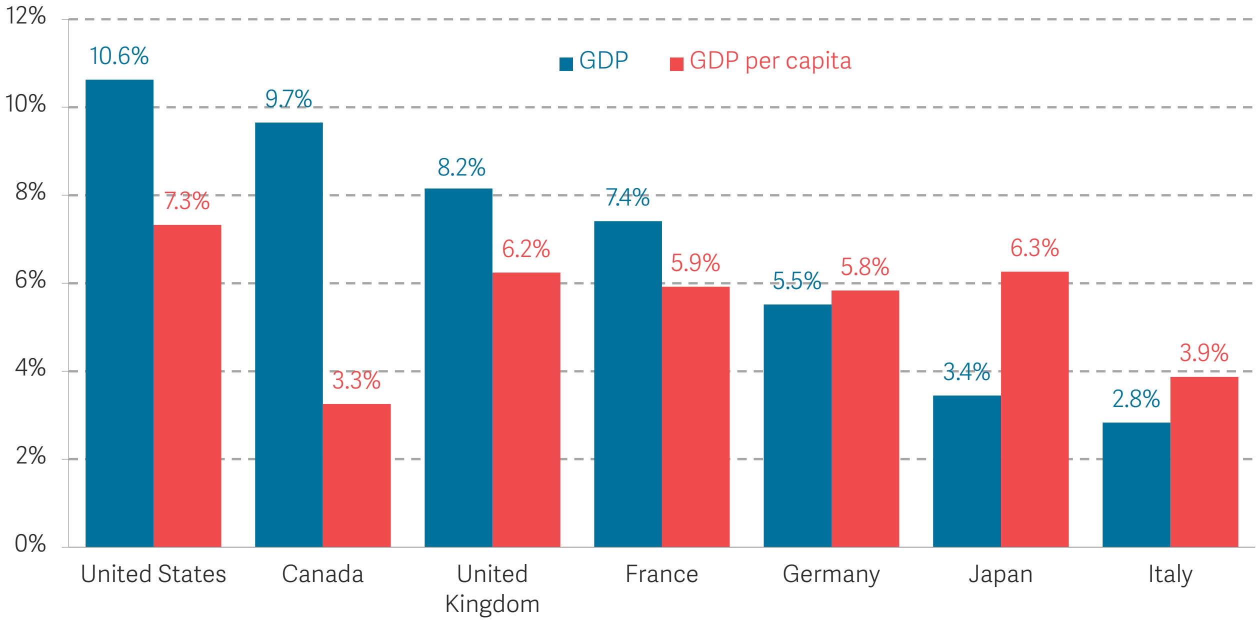
2 M Brewer et al., Pressure on pay, prices and properties: How families were faring in October 2023, Resolution Foundation, December 2023.

apparent in the higher prices that households now pay. The average level of prices in the UK increased by 22 per cent between March 2021 and March 2024 – the third-largest rise among rich countries.[3] Prices have risen particularly sharply for energy bills and food, by 90 per cent and 31 per cent respectively over the same period.[4] Concern about the economy among the public typically rises during tough economic times such as these: as shown in Figure 1, the last time the economy was the top priority for Britain was in the aftermath of the financial crisis, more than a decade ago.

The question the government wants to answer during this election campaign is whether the economy has 'turned a corner' following these global shocks. When asked, the Prime Minister can now point to Britain's return to growth in the first quarter of 2024, which marks the end of a technical recession. Even the Chief Economist at the ONS has commented that the economy is 'going gangbusters'.[5] And to cement a sense of optimism, the UK grew faster than other G7 economies in the first quarter of 2024, leading the International Monetary Fund to upgrade GDP growth forecasts for the UK for 2024.[6] The UK's economy is now forecast to grow faster than other European G7 economies until 2029 in both GDP and GDP per capita terms (Figure 2).

FIGURE 2: **The economy is going 'gangbusters'?**

IMF forecast of growth in real GDP and real GDP per capita, by country: G7 economies, 2024-2029



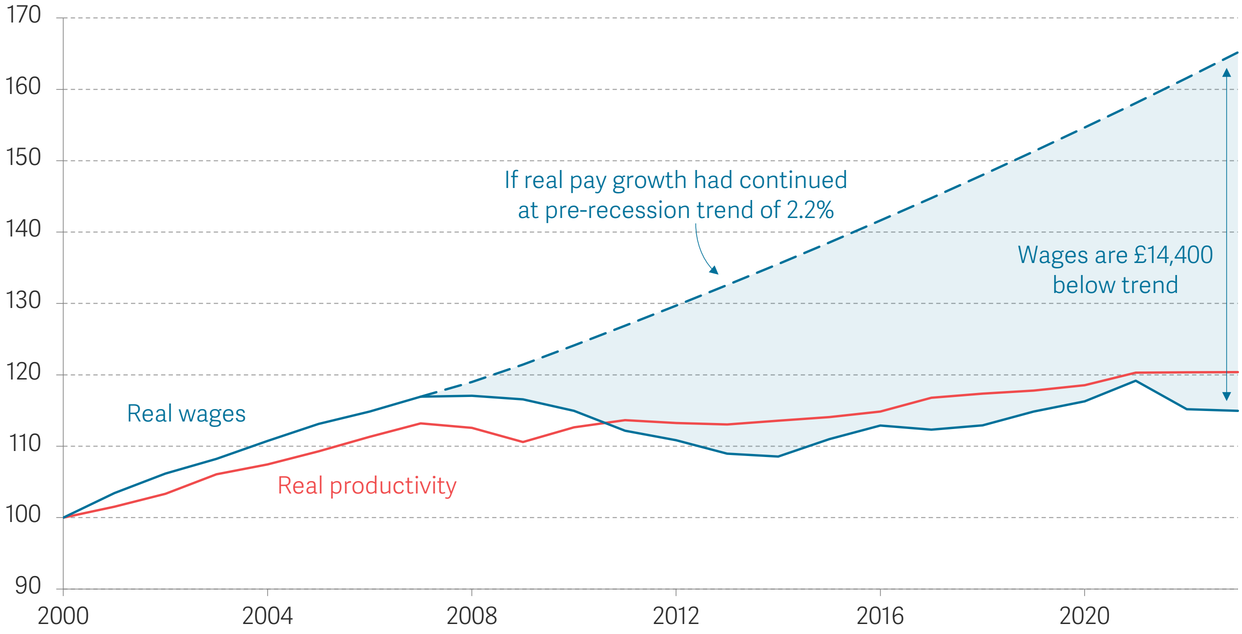
SOURCE: RF analysis of IMF, World Economic Outlook Database, May 2024.

3 Source: OECD, Consumer price indices (CPIs) – Complete database.
4 N Cominetti et al., Paying the price: How the inflation surge has reshaped the British economy, Resolution Foundation, May 2024.
5 T Wallace, Britain's 'gangbusters' growth offers Sunak a boost – but there may be a sting in the tail, The Telegraph, May 2024.
6 IMF, United Kingdom: Staff Concluding Statement of the 2024 Article IV Mission, May 2024.

So, the Conservative Party can tell a good story about news since the start of the year suggesting something of a turnaround in our economic fortunes. But the broader economic landscape in this election year remains one of sluggish growth since the financial crisis. Indeed, the UK hasn't experienced such a slow growth rate over a comparable 16-year period – 0.4 percent – in 200 years, since 1826.[7] It is our low productivity growth, not low GDP growth, which drives stagnant wages. In this context, average annual wages are now £14,400 below their pre-financial crisis trend (Figure 3). And it is this longer-term stagnation which has left low-to-middle income households poorer than their counterparts in Germany and France.[8] It is no surprise, therefore, that despite the news of the economy growing in 2024, more people still think that the economy will get worse (37 per cent) than think it will get better (33 per cent) over the next 12 months.[9]

FIGURE 3: **Productivity stagnation equals wage stagnation in the UK**

Indices of real annual wages (actual and pre-recession trend) and real output per hour worked (2000 = 100): GB/UK



NOTES: Converted to real terms using a seasonally adjusted CPI index. Pay is regular pay, i.e. excludes bonuses and arrears. Earnings data covers Great Britain only; productivity data covers the whole of the UK.
SOURCE: RF analysis of ONS, Output per hour worked; ONS, Average weekly earnings.

So, to put the UK's economic performance since 2010 in context, we must look closely at how both GDP and productivity growth have evolved, and analyse how the UK's relative performance has changed over time. It is only then that we can assess the UK's future prospects for growth and living standards.

7 Bank of England, A millennium of macroeconomic data, April 2017.
8 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
9 Ipsos, Sharp improvement in economic optimism but little benefit for Conservatives who still trail significantly , May 2024.

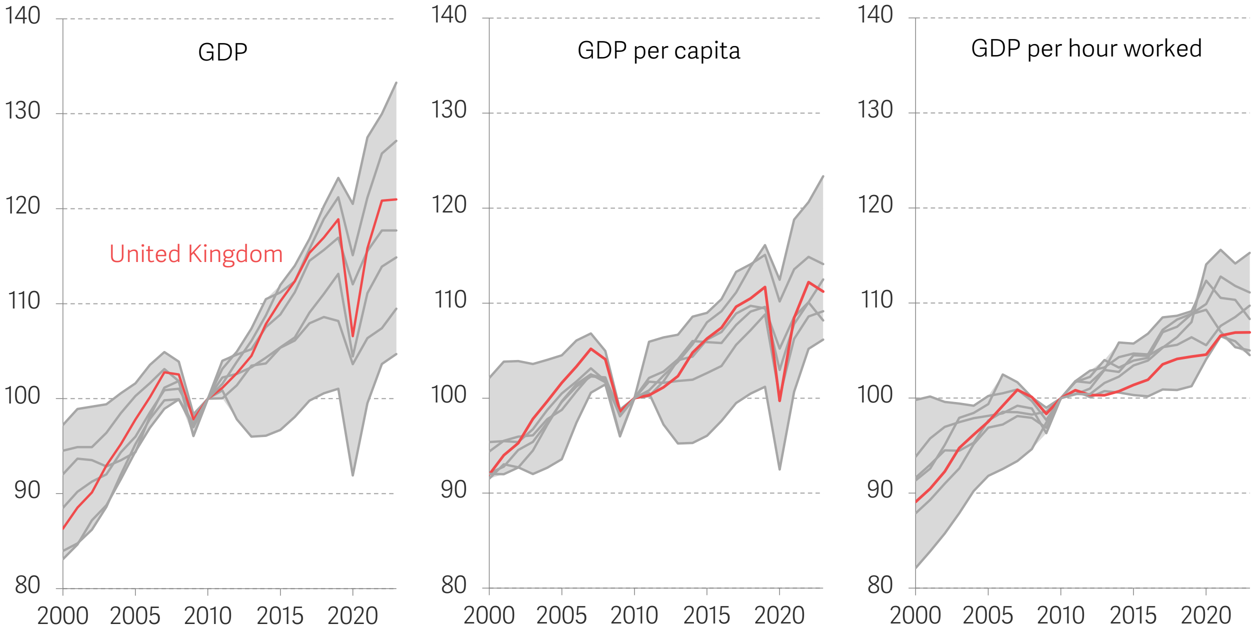
Britain's fast-rising population has flattered GDP growth

Britain's record on GDP growth since 2010 has been solid, if unspectacular, when compared to other rich countries. Real GDP grew by an average of 1.5 per cent per year between the end of 2009 and the end of 2023, putting us third in the G7, behind the US and Canada but ahead of France, Germany, Italy and Japan, and roughly at the median among a wider set of high-income OECD countries (see Figure 4).

It is important to keep in mind that the starting point is important here, with a sovereign-debt crisis in Europe meaning that growth was weaker for France, Germany and particularly Italy at the start of this period. Including the UK's (relatively bad) financial-crisis recession in the comparison period makes it a bit worse – so that Germany almost draws level with us – but not much (see Box 1). And the post-financial-crisis period conflates a decent performance in the 2010s (2 per cent annualised growth) with a terrible one in this decade so far – annualised growth of 0.3 per cent, putting us second-to-last in the G7, ahead of only Germany, which hasn't grown at all so far this decade.

FIGURE 4: **UK GDP growth has been flattered by a booming population**

Indices of real GDP, GDP per capita and GDP per hour worked (2010 = 100): G7



NOTES: National currency, chained volume measure. GDP data comes from national statistics offices, while hours and population are sourced from a mixture of national statistics offices and the OECD.
SOURCE: RF analysis of OECD; ONS; BLS; StatCan; Eurostat; JIL; IMF WEO.

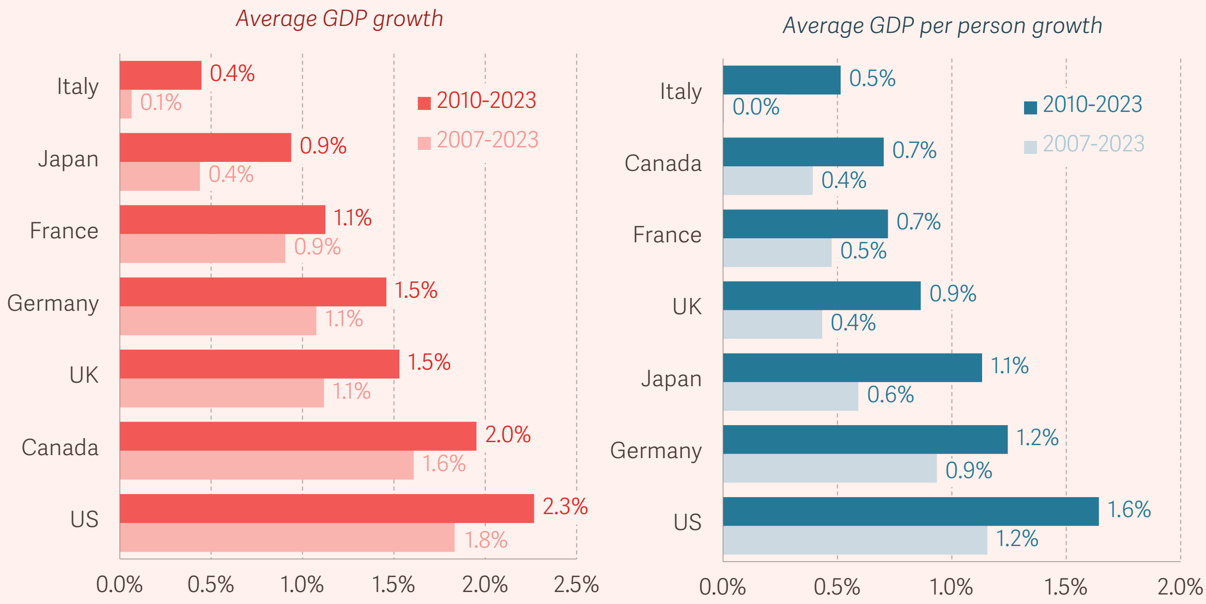
BOX 1: The choice of starting point affects international comparisons of economic growth

Against the backdrop of the 2024 general election, there is a natural focus on the UK's economic performance compared to other countries since 2010 – the year in which the Conservatives first came into power. But, in some respects, 2010 is an awkward starting point when making international companions, since the global economy was still recovering from a financial crisis that affected some countries more than others. To put the UK's recent economic performance in its full context, it's useful to also look at the size of the economy today compared to its size before the global financial crisis.

The left panel of Figure 5 shows the average rate of headline GDP growth across the G7 since 2007 and since 2010. Here, the UK's position among its peers is the same regardless of when we start to measure rates of growth. Measuring growth from 2007 rather than 2010 eats away at some of the UK's lead over Germany and France, but its average growth rate remains third-highest in the G7.

FIGURE 5: **The UK's relative economic performance is worse if we look at per capita GDP growth since just before the financial crisis, rather than just after it**

Average annual growth in real GDP (left panel) and real GDP per person (right panel): G7



SOURCE: RF analysis of OECD; ONS; BLS; StatCan; Eurostat; JIL; and IMF WEO.

The choice of starting point matters a little more when looking at growth in GDP per person. Between 2010 and 2023, the growth rate of UK GDP per person averaged 0.9 per cent per year, good enough for the fourth-highest growth rate in the G7. However, moving the starting point to 2007 captures UK's deep post-financial crisis recession in the growth calculation, the inclusion of which brings down the UK's average annual growth rate between 2007 and 2023 to 0.4 per cent. This fall is enough for France to leapfrog the UK, and the UK's growth rate drops to alongside Canada's, almost tying for the second-lowest average GDP per person growth rate over the period. In other words, although the UK's per-person growth since 2010 has been comfortably mid-table in the G7, its growth since before the financial crisis is nearer to the bottom of the pack.

Changing the start dates and the comparison group doesn't change the picture much when it comes to headline GDP growth. Instead, what really flatters the UK's performance is our booming population. The UK population grew by 0.7 per cent per year between mid-2009 and mid-2023, an increase of 6 million people. Indeed, the UK population increased at a faster rate in the two decades to 2023 than at any time since the two decades to 1923 – the tail end of the long 19th-century population boom.

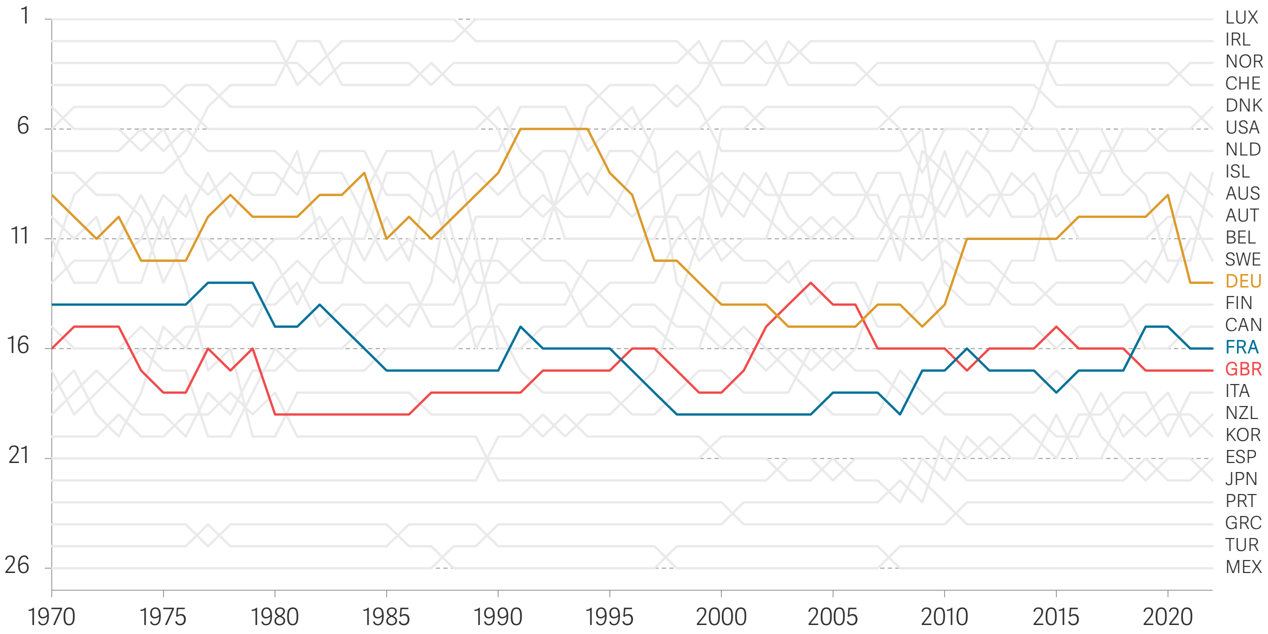
And in contrast to that previous long boom, when the UK faced net ***emigration*** of around 0.5 per cent per year, around 0.5 percentage points of the record population growth over the past two decades has been driven by net ***immigration***, easily the biggest contribution on record. To the (large) extent that the extra people in the UK added to the labour force and found jobs at roughly the same rates and wages as existing residents, this immigration made the economy bigger but didn't make the country any richer per person.

But the result of all this population growth is that, in per-capita terms, GDP only grew by 0.9 per cent on average over 2010-2023, putting us behind the US and Germany in the G7, countries that started this period already richer than us, as well as behind Japan. And, more recently, UK GDP per person actually fell by a cumulative 1.2 per cent between Q4 2019 and Q1 2024, as GDP growth decelerated much more quickly than population growth. The upshot is that in 2023 the UK's GDP per person now ranks fifth in the G7, ahead of only Italy and Japan, with France having overtaken us since 2010 (see Figure 6).[10]

10 In this note we make comparisons of growth rates using chained volume measures (CVMs), which are produced by national statistical agencies and weight together the growth of different bits of GDP at domestic relative prices. This is because it is these data that are reported in the press, and because they best represent the growth of the economy as it is valued by local people. When making international comparisons of the level of GDP, we use current PPP, which values different countries' output at common international relative prices. In general, growth rates of PPP measures (even when in constant prices) will differ somewhat from growth rates of national CVMs, but will normally give a broadly similar picture.

FIGURE 6: **The UK has been slipping down the international GDP per-person league table since the early 2000s**

GDP per person ranking among OECD countries



NOTES: GDP per capita is at current PPPs. Excludes countries where comparable data is unavailable for the whole time period.
SOURCE: RF analysis of OECD.

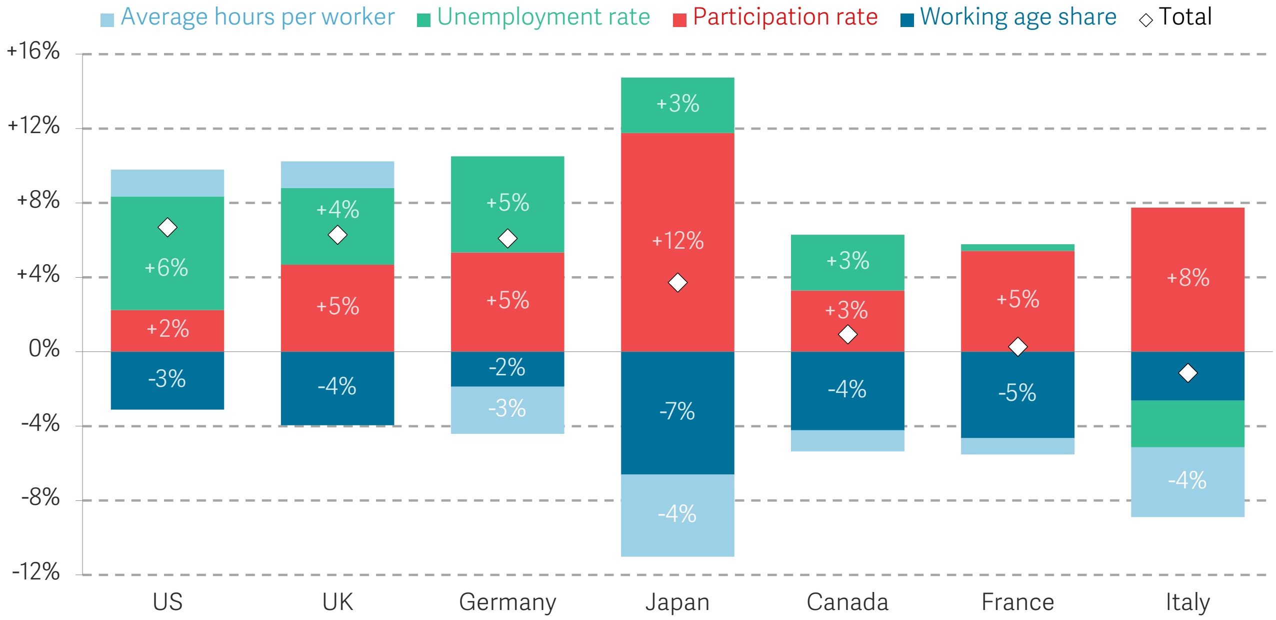
Rising employment drove GDP per capita growth in the 2010s, disguising a sharper productivity slowdown than in most other countries

During the 2010s, the UK experienced an employment boom.[11] Higher workforce participation, lower unemployment and longer average hours more than offset the drag from an ageing population. The result was that hours worked per-person increased by almost 8 per cent over that decade – second only to the US in the G7 (see Figure 7), leaving the UK in the middle of the G7 pack in terms of hours per person, working more than the other European G7 countries, but less than the more industrious and/or youthful Canada, Japan and US.

11 In order to measure growth in the 2010s, we compare the level in 2019 with the level in 2009.

FIGURE 7: **The 2010s saw a boom in hours worked per capita in the UK**

Cumulative growth in hours worked per person and contributions, 2010 to 2019: G7 countries



NOTES: Bars show the contribution to the total change in hours worked from its level in 2009, so that 2010 is the first year of growth. The decomposition is calculated by starting with the 2009 level, changing each component of average hours from its 2009 to 2019 level, and calculating the marginal impact of the change. This is done by changing each component in the following order: working age share of the total population, participation rate among those of working age, unemployment rate of those participating in the labour force and average hours of those employed. Other orderings would give different results, due to the reallocation of interaction effects. Working age population is proxied by those aged 15-64.
SOURCE: RF analysis of OECD.

The nature of this employment boom acted to reduce some forms of inequality in the UK. In the 2010s, the 16-64 employment rate rose by 4 percentage points among White people and 6 percentage points among all other ethnic groups; by 6 percentage points among women compared to 5 percentage points among men; and by 12 percentage points in the second income decile compared to zero in the ninth.[12]

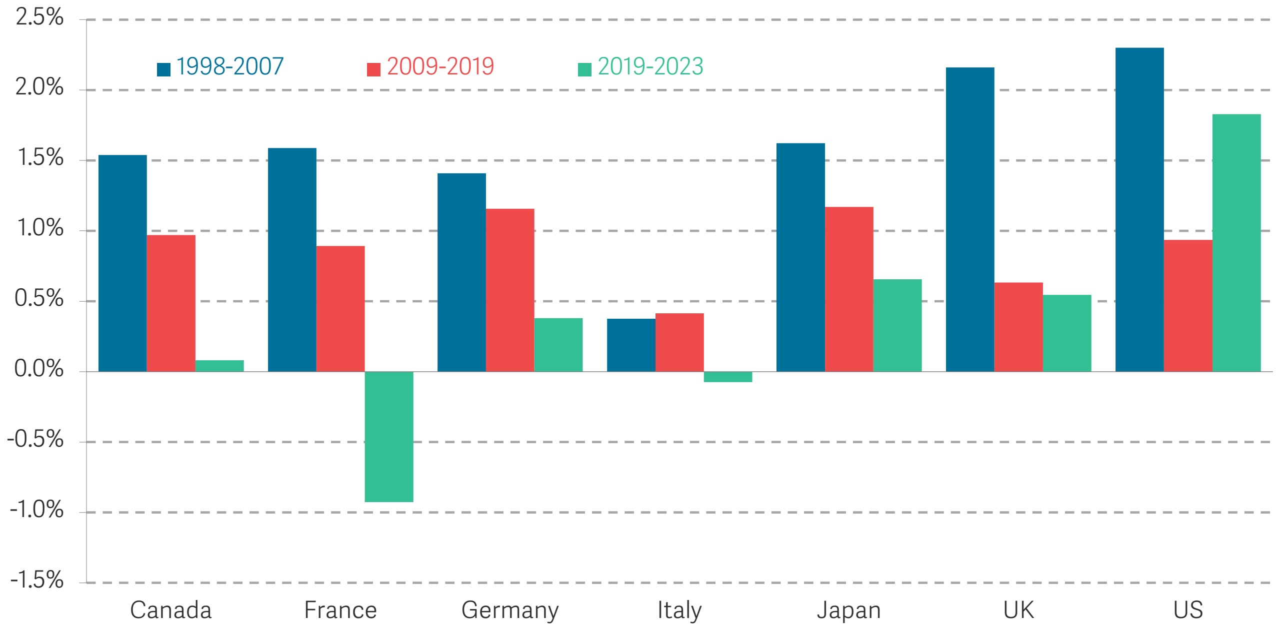
So, if the UK's performance on employment was exceptionally good, why was our growth in GDP per capita only mediocre?

The reason is that employment growth was offset by an exceptionally poor performance on labour productivity. Labour productivity (measured as GDP per hour worked) increased by an average of 0.6 per cent in the 2010s, slower than everywhere in the G7 bar Italy, and much slower than the 2.2 per cent we notched up in the decade leading up to the financial crisis (Figure 8). Put another way, in the 2010s, we had to work more to get incomes to grow; before the financial crisis, fast-growing productivity gave us the possibility of both increased leisure time and more money to spend.

12 See ONS, Ethnicity facts and figures, December 2023 and Fig 43 in Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

FIGURE 8: **Productivity growth slowed the most in the UK in the 2010s, while the 2020s have been bad everywhere outside the US**

Annualised growth in GDP per hour worked: G7 countries



NOTES: GDP is measured in national currency as a chained volume measure. Canada, France, Germany and Japan are based on OECD data; US is based on Bureau of Economic Analysis (BEA) data for GDP and OECD data for hours worked.
SOURCE: OECD; ONS; and BEA.

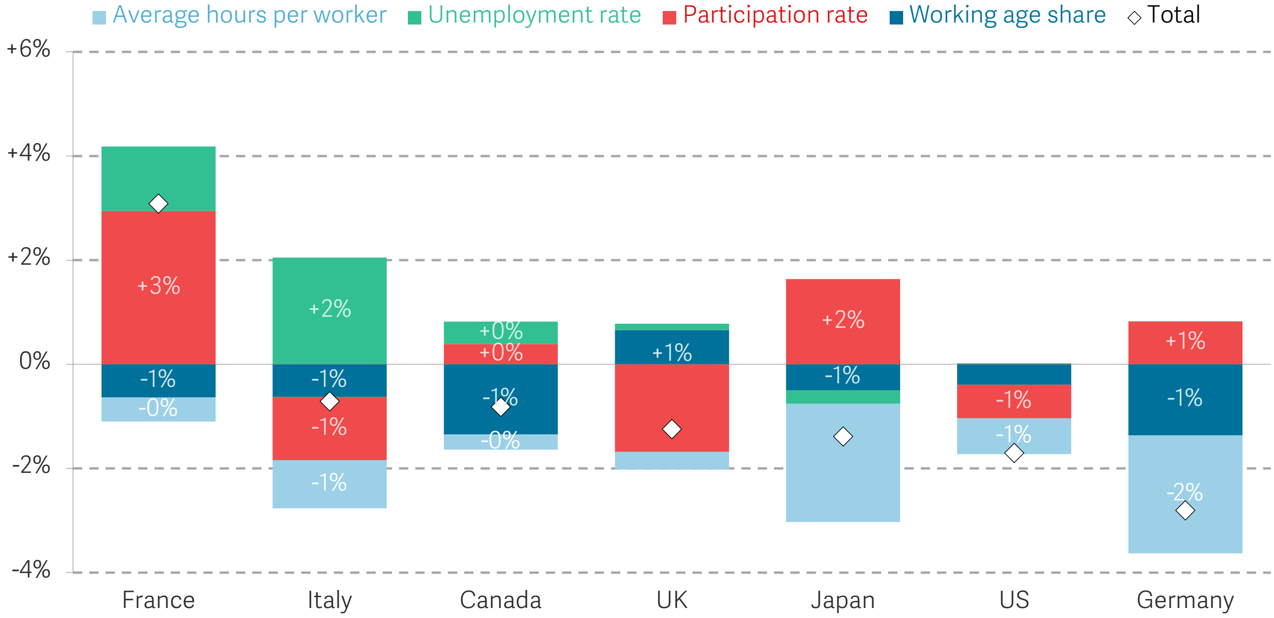
The employment falls in the 2020s have exposed Britain's weak productivity growth

Since the pandemic, the UK is no longer leading the pack on employment or trailing it on productivity, but this is not for the right reasons. We are doing worse on employment: UK hours worked per person have gone into reverse, falling at an annual rate of 0.6 per cent between 2019 and 2023, almost as fast a rate as they increased before the pandemic (Figure 9). This reversal in the growth of how much labour is put into the production process accounts for nearly all of the sharp slowdown in per-person GDP growth from the 2010s to the 2020s. And it stands in sharp contrast to the experience of some other countries' employment booms.[13]

13 It is possible that the Labour Force survey – the UK source for this comparison – is understating recent employment growth in the UK. Data from the tax system and the Workforce Jobs survey both suggest much stronger employment growth in recent years. If employment is stronger than it looks then, with GDP estimates unlikely to be affected, productivity would accordingly be weaker. See N Cominetti, Flying blind? The case of the missing employment data, Resolution Foundation, October 2023.

FIGURE 9: **In the 2020s, the UK's employment boom turned to bust**

Cumulative growth in hours worked per person and contributions, 2020 to 2022: G7 countries



NOTES: Bars show the contribution to the total change in hours worked from its level in 2019, so that 2020 is the first year of growth. The decomposition is calculated by starting with the 2009 level, changing each component of average hours from its 2019 to 2022 level, and calculating the marginal impact of the change. This is done by changing each component in the following order: working age share of the total population, participation rate among those of working age, unemployment rate of those participating in the labour force and average hours of those employed. Other orderings would give different results, due to the reallocation of interaction effects. Working age population is proxied by those aged 15-64. Data is up to 2022 due to data availability.
SOURCE: RF analysis of OECD.

Britain's productivity slowdown has been pervasive, with low investment and declining efficiency both to blame

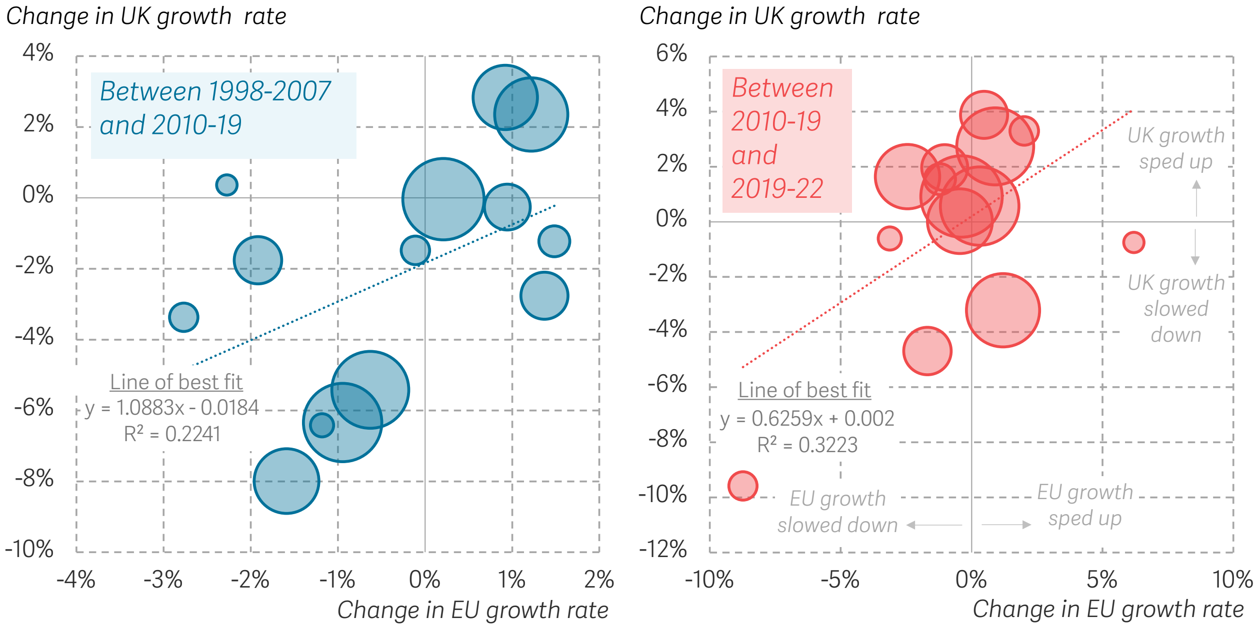
As Figure 8 shows, productivity growth slowed down across the G7 in the 2010s, with the UK particularly exposed to this global trend. The left-hand panel of Figure 10 shows that the sectoral pattern of changes in productivity growth in the UK is similar to the pattern in the EU, suggesting that some common international factors were at work. But the UK did worse overall.[14] The slowdown has been fairly widespread across sectors, although a few big ones – manufacturing, finance, and IT and professional services – account for much of the total.[15] Moreover, the productivity slowdown has coincided with a deceleration in the reallocation of workers and jobs across firms and sectors, another common international trend.[16] In the 2020s the rest of the G7, outside the US, have been

14 As evidenced by the negative intercept for the line of best fit.
15 These findings depend a great deal on the measurement of value-added prices at the level of industries. See S Tenreyro, The fall in productivity growth: causes and implications, January 2018, Bank of England.
16 R Davies et al., Ready for change: How and why to make the UK economy more dynamic, Resolution Foundation, September 2023.

getting a taste of the UK's dismal rates of productivity growth and, as Figure 10 (right-hand panel) again shows, the overall pattern of this slowdown has been similar on both sides of the Channel, although this owes a lot to a few outliers.

FIGURE 10: **The sectoral pattern of the slowdown in productivity growth has been similar in the UK and EU**

Change in annualised growth in gross value added per hour worked by sector: UK and EU



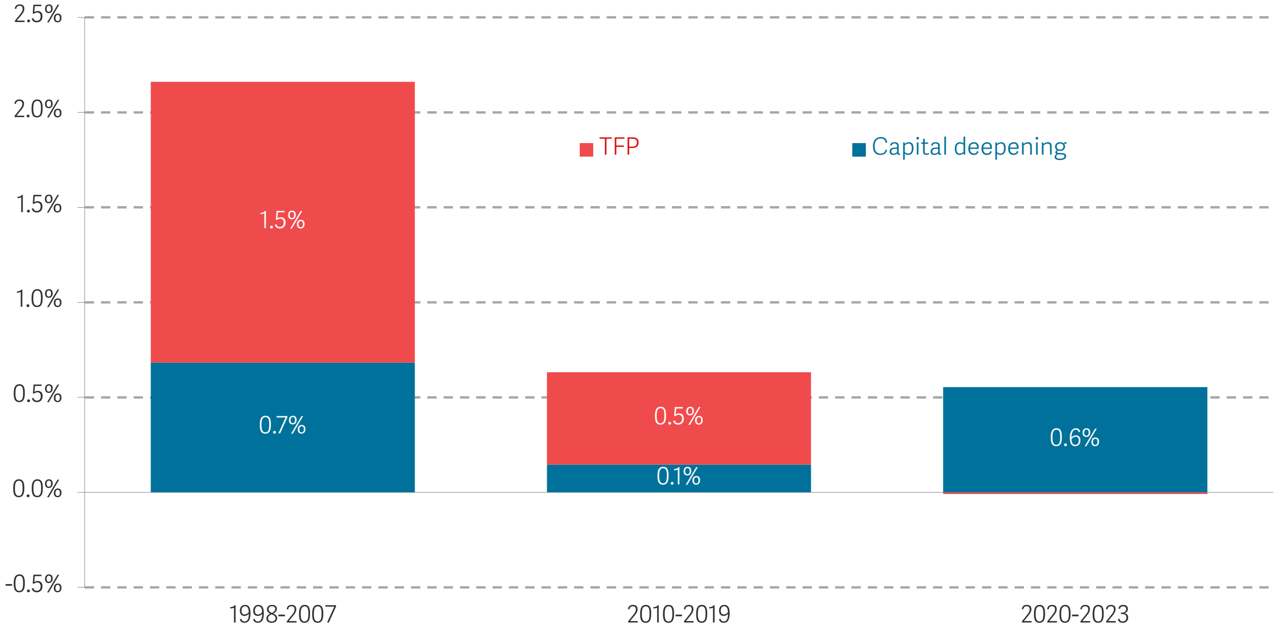
NOTES: Bubble size is proportional to UK sectoral GVA in 2023.
SOURCE: RF analysis of ONS and Eurostat.

Labour productivity depends on the equipment and other capital (e.g. buildings and intangibles like research and development) that workers have at their disposal, and on the efficiency with which all productive resources – capital and people – are used (so-called total factor productivity, or TFP). A deficiency in both has driven the slowdown in labour productivity growth. In the 2010s, TFP growth slowed sharply, while the UK's rock-bottom investment rate meant that capital deepening contributed almost nothing to productivity growth (Figure 11).[17]

17 Here TFP includes the contribution from labour quality.

FIGURE 11: **In the 2020s, total factor productivity growth has slowed to zero**

Contributions to growth in gross value added per hour worked, UK



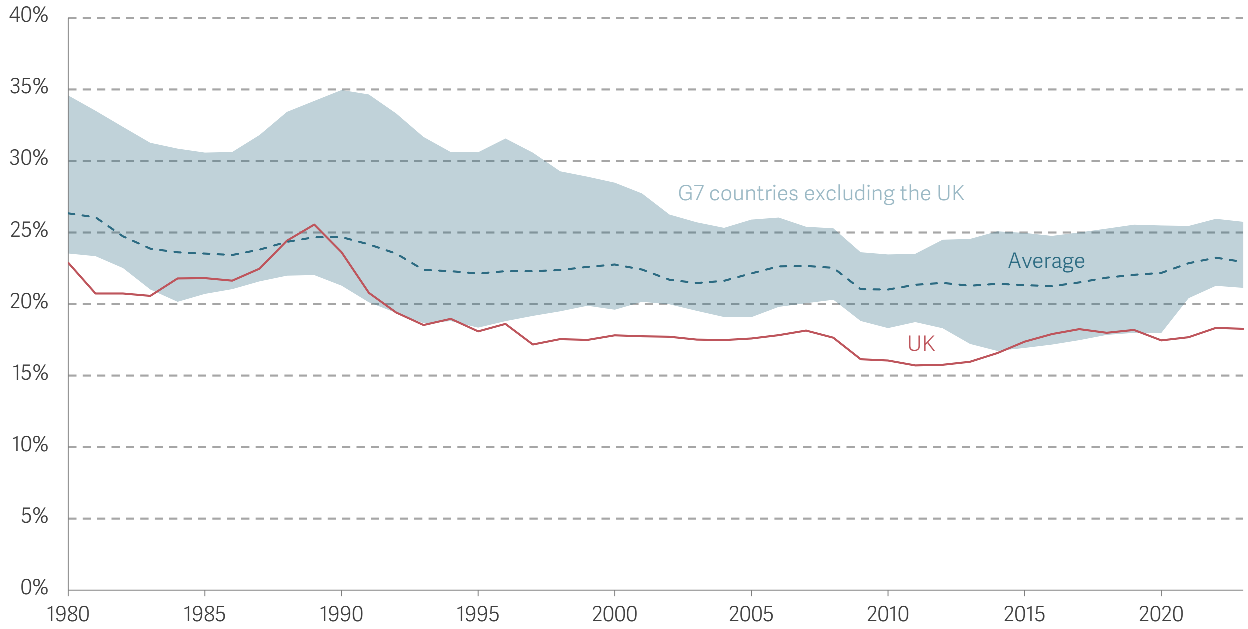
NOTES: The capital deepening contribution is the growth in capital services per hour work multiplied by the average of the capital share measured as gross operating surplus (GOS) over gross value added (GVA) and GOS plus mixed income over GVA. Capital services are estimated by weighting the whole economy capital stock by the ratio of capital services to capital stock for each of the major asset categories implied by the ONS Volume Index of Capital Services release. TFP is the difference between labour productivity growth and the contribution from capital deepening.
SOURCE: RF analysis of OECD.

Since the pandemic, TFP growth has slowed almost to zero (Figure 11) and growth in productive capacity was accounted for by a rise in capital intensity as a mechanical result of the sharp fall in labour supply. Indeed, there has been no meaningful recovery in the investment rate, and the UK's investment rate continues to languish at the bottom of international league tables as it has for decades (Figure 12), with both business and public investment contributing to this weakness.[18] The result is a low ***level*** of capital per worker, low enough to explain all of the UK's productivity gap with France.[19]

18 See: F Odamtten & J Smith, Cutting the cuts, Resolution Foundation, March 2023; J Oliveira-Cunha et al., Business time: How ready are UK firms for the decisive decade?, Resolution Foundation, May 2021
19 J Oliveira-Cunha et al., Business time: How ready are UK firms for the decisive decade?, Resolution Foundation, May 2021.

FIGURE 12: **The UK's investment rate has long been low by international standards**

National investment rate: G7 countries



SOURCE: RF analysis of OECD, Quarterly National Accounts and Annual National Accounts.

In summary, the story of growth in GDP per person has been dominated by the employment boom of the 2010s giving way to the employment bust of the 2020s. Weak productivity growth – the weakest for two hundred years – has been a constant throughout, and the root cause of flat real wages. Trade is a key driver of productivity growth, and it is to this that we turn now.

Since the pandemic, the UK's exceptionalism has shifted from productivity to trade

The UK's trade performance has diverged from that of other rich countries, particularly after the pandemic. The UK has missed out on the global boom in goods trade, although we have maintained our specialism in services.

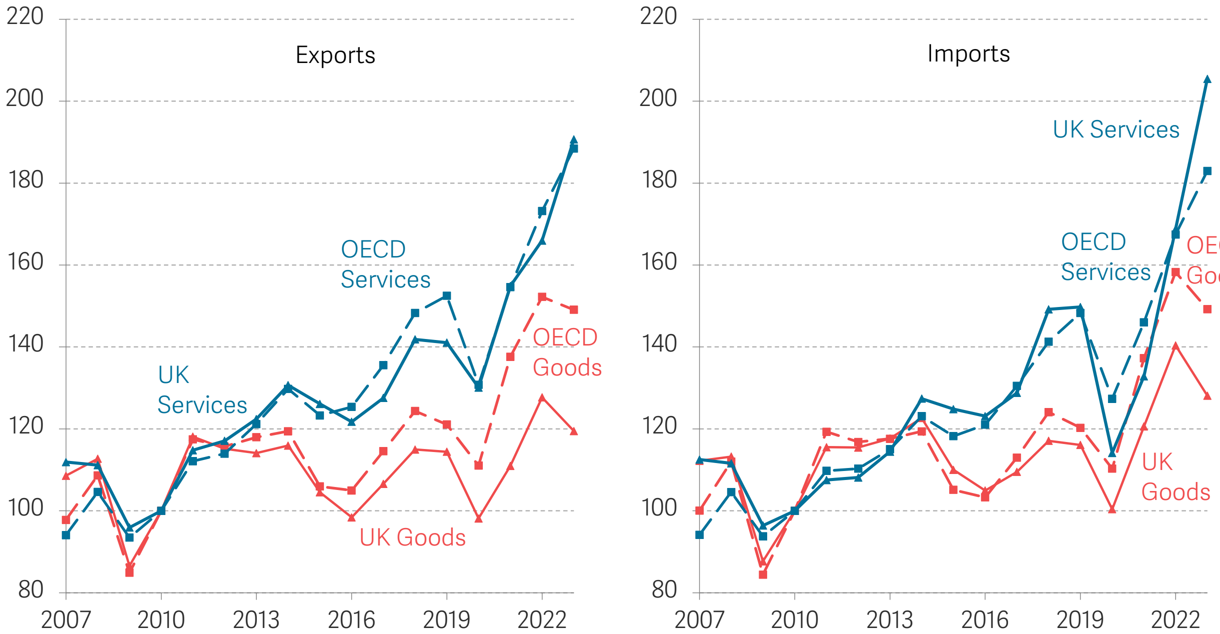
Starting with services trade, where growth has been buoyant over the past 15 years. This reflects both the UK's services specialisms and global trends of services trade growing faster than goods trade.[20] Indeed, prior to the pandemic, the UK's services imports and exports were growing at 4.6 per cent and 3.9 per cent annually between 2010 and 2019. This was more-or-less at pace with the OECD average whose annual growth in services imports and exports was 4.5 per cent and 4.8 per cent over the same period (Figure 13).

20 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.

Post-pandemic, the UK's growth in services accelerated, outpacing services trade in the rest of the OECD. Between 2019 and 2023, the UK's services exports grew at 7.8 per cent per year, accelerating ahead of OECD services exports which increased by 5.4 per cent per year on average. UK services imports grew even faster over this period, at 8.2 per cent per year compared with the OECD's 5.4 per cent annual growth. This growth is important for the UK given we are particularly specialised in services relative to other countries.[21] In 2023, more than half (54 per cent) of the UK's exports were in services compared to one-third of US exports (33 per cent), and just one-in-five exports for Germany (21 per cent).[22] Given this strength in services, the UK has maintained its position as the second-largest services exporter in the world, second only to the US, since at least 2005.[23]

FIGURE 13: **Britain's services trade held steady amid declining goods trade**

Index of goods and services exports and imports, current prices (2010=100): OECD & UK



NOTES: Current prices. US dollar exchange rate converted. Data includes precious metals.
SOURCE: RF analysis of OECD, Balance of Payments.

Goods trade trends shifted post-pandemic too. The defining post-pandemic trend was an unexpected surge in goods trade among advanced economies. As we emerged from the pandemic, people began to spend money on goods instead of experiences like travel and dining out. Global goods consumption was above its pre-pandemic trend by 2023, while

21 J De Lyon et al., Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade, Resolution Foundation, April 2022.
22 RF analysis of BEA; Destatis; ONS. Figures for 2023 and in current prices, and including precious metals.
23 E Fry, Britain needs to acknowledge rather than deny its weaknesses in goods trade, and leverage its strength in services, Resolution Foundation, May 2024.

services consumption remained below its pre-pandemic trend.[24] And because goods are more trade-intensive than services, this higher consumption of goods – from sofas to paddle boards – amplified the growth in goods trade. Since 2019, OECD goods exports increased by 5.3 per cent each year on average, well over double (150 per cent higher) the rate of growth during 2010-2019 of 2.1 per cent.[25]

Despite this favourable backdrop, Britain's goods trade has slowed since the pandemic. Since 2019, the UK's goods exports grew by just 1.1 per cent each year, just three-quarters of its rate between 2010 and 2019 (1.5 per cent), and one-fifth of the rate of OECD countries. It is not surprising, therefore, that the UK's global goods export ranking fell too – from 10th in the world to 13th between 2019 and 2022.[26] Overall, the UK's trade openness (measured as the ratio of exports and imports to GDP) fell by 0.7 percentage points since 2019, compared with a 1.2 percentage point rise for G7 countries excluding the UK. This was entirely driven by a fall in goods openness, which fell 4 percentage points compared with an average increase of 0.3 percentage points for the rest of the G7.

Falling market share rather than product composition explains Britain's poor goods trade performance

Some argue that the UK's recent underperformance in trade is because the UK just doesn't produce the things that people want to buy. The argument goes that Britain's services exports, such as financial services and consulting, and its goods exports, such as cars and chemicals, are out-of-fashion internationally.

If this was the case, the UK's industrial mix would be the primary driver of the UK's goods trade underperformance, and be a drag on the UK's services export growth.[27] But the types of services that UK exports continue to be popular internationally. As shown in Figure 14, the UK's industry mix has had little influence on the UK's services growth in recent years. Instead, the rising tide of OECD services export growth in the sectors that the UK specialises in has benefitted the UK. Overall between 2010 and 2023, the UK's market share of OECD services exports has risen slightly from 10.6 per cent in 2010 to 10.7 per cent in 2023. This strength means that the UK has outperformed comparators such as France, with its similar export profile, whose services export market share fell from 7.2

24 Goods consumption for countries outside of Europe is ahead of pre-pandemic trends. However, real goods consumption in both the UK and Germany is below pre-pandemic levels in 2023. For more information, see: M Attinasi et al., Global trade in the post-pandemic environment, ECB Economic Bulletin, Issue 1/2024; and N Cominetti et al., Paying the price: How the inflation surge has reshaped the British economy, Resolution Foundation, May 2024.

25 The OECD's goods exports grew 5.3 per cent each year compared with services exports which grew 5.4 per cent each year between 2019 and 2023. Between 2010 and 2019, OECD goods exports grew 2.1 per cent annually, while services exports grew at 4.8 per cent. RF analysis of OECD, Balance of Payments, May 2024.

26 These figures include precious metals. Excluding precious metals, the UK was the 15th largest goods exporter in the world in 2022. RF analysis of UNCTAD and UN Comtrade.

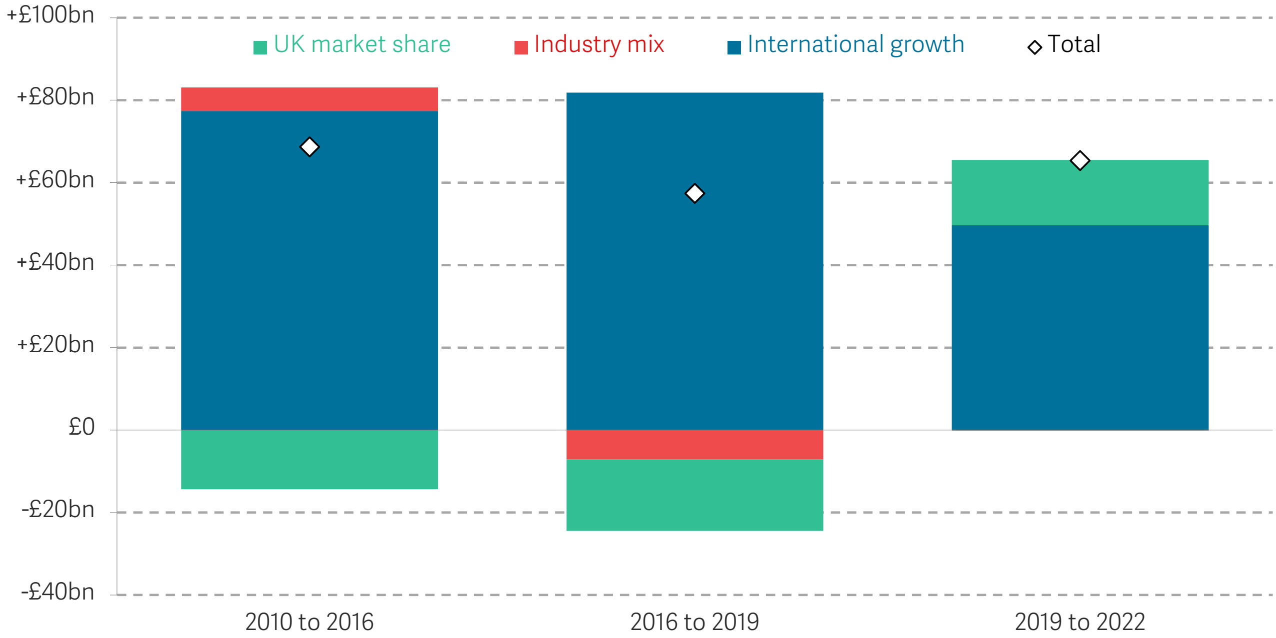
27 The UK's growth in services and goods trade has three key drivers. First the UK's trade growth could be in line with global trends (international growth). Second, the sectors that the UK trades in could grow at a faster or slower pace than average global trade growth (industry mix). Third, the UK could gain or lose market share in the products that we trade (UK market share).

per cent to 6.6 per cent between 2010 and 2023. Similarly, the US market share fell from 20.2 per cent to 18.4 per over the same period.[28]

These strengths also reflect how the composition of the UK's services exports have changed since 2010. While Britain is frequently portrayed as a nation reliant on financial services, shifts in the UK's services exports over the past 13 years paint a different picture. In 2010, a quarter (25.1 per cent) of services exports were in financial services, but this had shrunk to 16.4 per cent in 2023.The engine of the UK's services trade growth has been other business services which grew from 25.5 per cent of the UK's services exports in 2010 to 39.3 per cent in 2023.[29]

FIGURE 14: **The UK's services exports have been normal compared with the OECD**

Decomposition of contributions to UK services export growth: UK



NOTES: Figures in value terms. BPM6 services categories: goods-related services, transport, travel, construction, insurance and pension services, financial services, charges for the use of intellectual property n.i.e., telecommunications, computer and information services, other business services, personal, cultural and recreational services, government goods and services n.i.e., and services not allocated.
SOURCE: RF analysis of UNCTAD, Services (BPM6): Exports and imports by service-category, trade-partner World, annual.

The UK's particular mix of industries is also not the main source of the UK's weakness in goods exports. Before 2019, the UK's industry mix had a negligible effect on the UK's growth in goods exports. Instead, generally slower growth in goods trade across

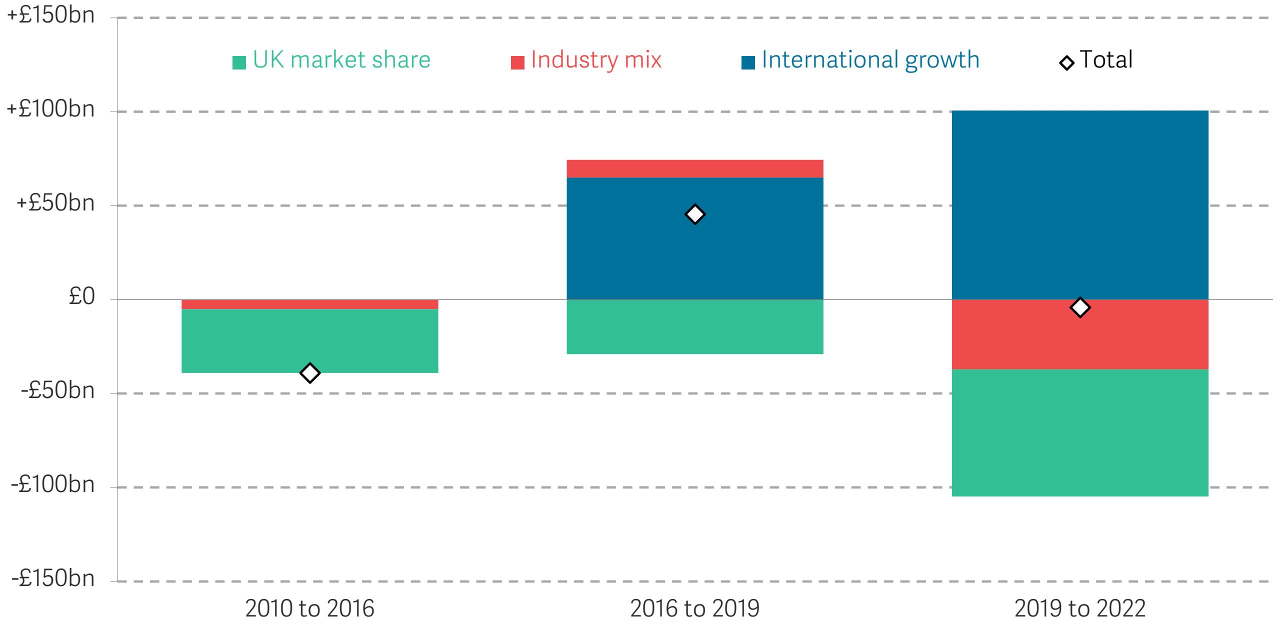
28 RF analysis of OECD, Balance of Payments, May 2024.
29 Growth in Other Business Services includes rapid growth in sectors including management consulting and public relations services, advertising, R&D services – as well as an opaque category known as trade with affiliates which refers to trade supplied via UK-owned foreign affiliates. RF analysis of ONS, UK trade in services: service type by partner country, non-seasonally adjusted, April 2024. For more information on the rise of Other Business Services see: J Portes, S Hall & S Hunsaker, UK trade 2024, June 2024.

the OECD in the 2010s – particularly as a share of GDP which some have termed 'slowbalisation' – and a slowly declining UK market share in the products we export caused low growth in goods trade (see Figure 15).[30]

Since the pandemic, the main culprit of the UK's underperformance relative to the OECD in goods exports is the UK's falling market share in the products we export. In fact, only around a third of the weakness relative to the OECD is because the products that we typically sell weren't growing as quickly as other products. But two-thirds of the underperformance is due to the UK's falling market share in the products that we do tend to export.[31] Indeed, had the UK had maintained its market share in the products the UK sells, then our goods exports would have grown by $64 billion between 2019 and 2022, rather than shrinking by $4 billion.

FIGURE 15: **The UK's weak record on goods exports was driven by declining UK market share**

Decomposition of contributions to UK goods export growth: UK



NOTES: Decomposition at HS4 product level for all OECD countries. Analysis excludes precious metals: HS codes 7106 to 7112. Growth compared to OECD countries.
SOURCE: RF analysis of United Nations Statistical Division (COMTRADE).

This weakness adds up to a gloomy goods trade performance in recent years. In real terms, the UK's goods exports had fallen 11 per cent while imports have fallen 4.4 per cent between 2019 and 2023.[32] Rather than worrying about the industries we are specialised in, we should address some of the new trade frictions that have emerged with the EU

30 For a discussion of global trade trends, see: R Baldwin, The peak globalisation myth, November 2022.
31 Overall, the UK's market share of goods exports among OECD countries fell 0.7 percentage points between 2019 and 2023 (from 4.4 per cent in 2019 to 3.7 per cent in 2023). In contrast, France's market share fell just 0.3 percentage points between 2019 and 2023 (from 5.5 per cent to 5.2 per cent in 2023).
32 In comparison, the UKs services exports have grown 12.6 per cent and imports have grown 18.7 per cent in chained volume measures. Source: ONS, Trade Time Series, May 2024.

post-Brexit, but also reflect upon why the UK's goods trade with the rest of the world has been weak too.[33] And we should also focus on leveraging the UK's strengths in services. After all, these strengths and weaknesses provide the context for growth over the next parliament.

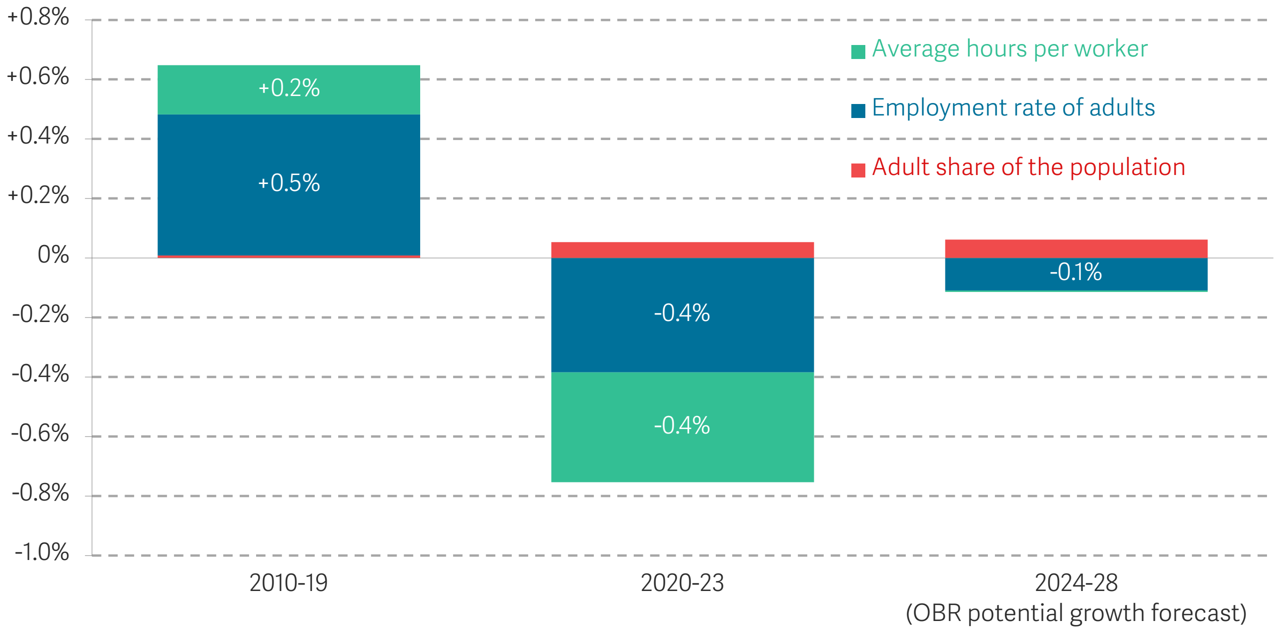
Future growth must come from increased productivity, meaning higher investment which we will need to pay for

The need to revitalise growth is something that all parties agree on. But achieving it will not be easy in the next parliament, as the UK faces a new set of national and international dynamics. Below we outline three challenges to the growth outlook.

First, over the next parliament, the UK looks like it will have to get by without a repeat of the employment boom that fuelled growth in GDP per person during the 2010s. The combination of rising employment and longer hours boosted annual per-person GDP growth by 0.6 percentage points in the 2010s (Figure 16). But the next Parliament may have to do without this tailwind, as ageing, shorter working hours among those in work, and poor workforce health are all expected to push down on average hours worked across the whole population.[34]

FIGURE 16: **We have reached the end of the UK's employment boom**

Contributions to annualised growth in hours worked per person, outturns and OBR potential growth forecast: UK



NOTES: Adults refers to those aged 16 or older.
SOURCE: RF analysis of ONS and OBR, Economic and fiscal outlook – March 2024, March 2024.

33 For a discussion of the post-Brexit trade barriers in detail see: S Dhingra et al., The Big Brexit: An assessment of the scale of change to come from Brexit, Resolution Foundation, June 2022. For a discussion on the impacts of Brexit on goods trade see: J Du, E Satoglu & O Shepotylo, How did Brexit affect UK trade?, March 2023.
34 Office for Budget Responsibility, Potential output, Economic and fiscal outlook – March 2024, March 2024.

However, the familiar narrative of an ageing population contains some nuances for Britain. To begin with, British society enters the 2020s significantly younger than many of its peer economies, such as Japan, Italy, and Germany. Notably, the mini baby boom of the early 2000s will inject some youth the labour market in the coming decade. While the number of people reaching state pension age is projected to surpass 800,000 for the first time in 2028, the influx of young adults born in the 2000s entering the workforce will act as a helpful counterbalance. So, while the UK needs to look beyond increasing employment as means to faster growth, demographics won't be as strong a headwind as in some neighbouring economies.[35]

Second, the UK will need to tackle its low investment problem. Both parties agree that the UK can't continue as a low-investment nation: Chancellor Jeremy Hunt's 2023 Autumn Statement included 110 growth measures, many of which had the stated aim of increasing business investment; and Rachel Reeves's Mais lecture highlighted that we have to raise investment if we are to return to growth.[36] But the scale of the increase in investment over the next decade will need to be ambitious. Box 2 below outlines a plan for increasing investment and productivity commensurate with the scale of the challenge.

BOX 2: **An ambitious strategy to increase investment, productivity and growth**

The UK's productivity problems are long-standing and pervasive. To address them requires wide-ranging and durable set of reforms. The Resolution Foundation has recently set out a comprehensive economic strategy to boost investment, productivity and labour supply and to distribute widely the benefits of the resulting growth.[37] We outline below some of the key elements:

- Reform trade policy to reduce the cost of goods trade with the EU and maximise the global benefits of the UK's comparative advantage in services;
- Concentrate graduates, housing and infrastructure investment in our second cities – Birmingham and Manchester – to realise greater agglomeration benefits;
- Increase public investment to 3 per cent of GDP;

35 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
36 J Hunt, Autumn Statement 2023 speech, HM Treasury; R Reeves, Rachel Reeves Mais Lecture 2024, The Labour Party, March 2024.
37 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

- Reform corporate taxation and governance, the pensions system and the planning system to boost business investment;
- Cut stamp duty on business and residential transactions to encourage mobility and business dynamism;
- Increase the share of British workers with qualifications exceeding A-level equivalents, and improve the pathways for technical and vocation education; and
- Improve labour-market regulation and job quality to boost labour supply and steer workers into high-value sectors.

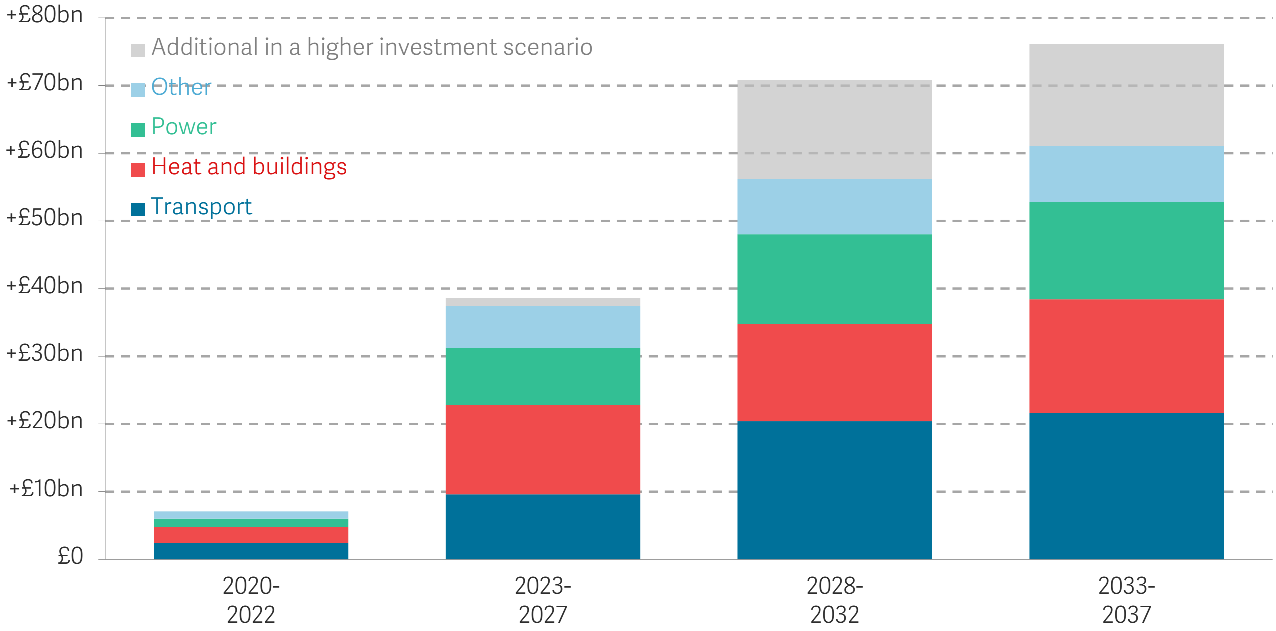
To illustrate the magnitudes involved, consider what would be necessary to merely halve the 4.4 percentage point gap between the investment rate of the UK and the average of the rest of the G7. An increase of 2.2 percentage points would be equivalent to roughly £60 billion of investment per year in today's economy. In the short run, the resulting increase in the capacity of the economy would be much smaller than this, so the investment would need to be paid for by a 2 per cent of GDP fall in domestic (public and private) consumption, or an equivalent rise in the current account deficit.[38] But, in the long run, the rise in GDP – around £110 billion – would be more than enough to both pay for investment and facilitate higher consumption.[39]

These investment needs will be in addition to that which is required to meet the Government's net-zero commitments, for which the government and private sector will need to find an additional £40 billion each year until 2027, and up to £70 billion each year (2.6 per cent of GDP) between 2028 and 2032 as shown in Figure 17.[40] While necessary to meet the UK's net-zero commitments, not all of the benefits of this extra investment will be measured as an increase in GDP, but rather will either bring forward the scrapping of existing capital, reduce the costs of domestic heating, or lead to improvements in the local environment. This investment should not be thought of as closing the gap in investment with the G7, as those countries will also need to invest an equivalent amount as a share of GDP to meet net zero.

38 Real per-person consumption has actually fallen by far more than incomes post-pandemic. For more, see: N Cominetti et al., Paying the price: How the inflation surge has reshaped the British economy, Resolution Foundation, May 2024.
39 See Section 5 of J Oliveira et al., Business Time: How ready are UK firms for the decisive decade?, Resolution Foundation, November 2021.
40 These estimates are broadly similar estimates to those set out in the Climate Change Committee's (CCC's) Sixth Carbon Budget. For more, see: K Shah, J Smith & D Tomlinson, Under pressure: Managing fiscal pressures in the 2020s, Resolution Foundation, February 2022. For more on net zero investment in the power sector, see: E Fry & J Marshall, Electric Dreams, Resolution Foundation, April 2024.

FIGURE 17: **Britain needs substantial net-zero investment in the next two decades**

Government estimate of additional real (adjusted to 2023 prices) public and private investment requirements to implement the Net Zero Strategy



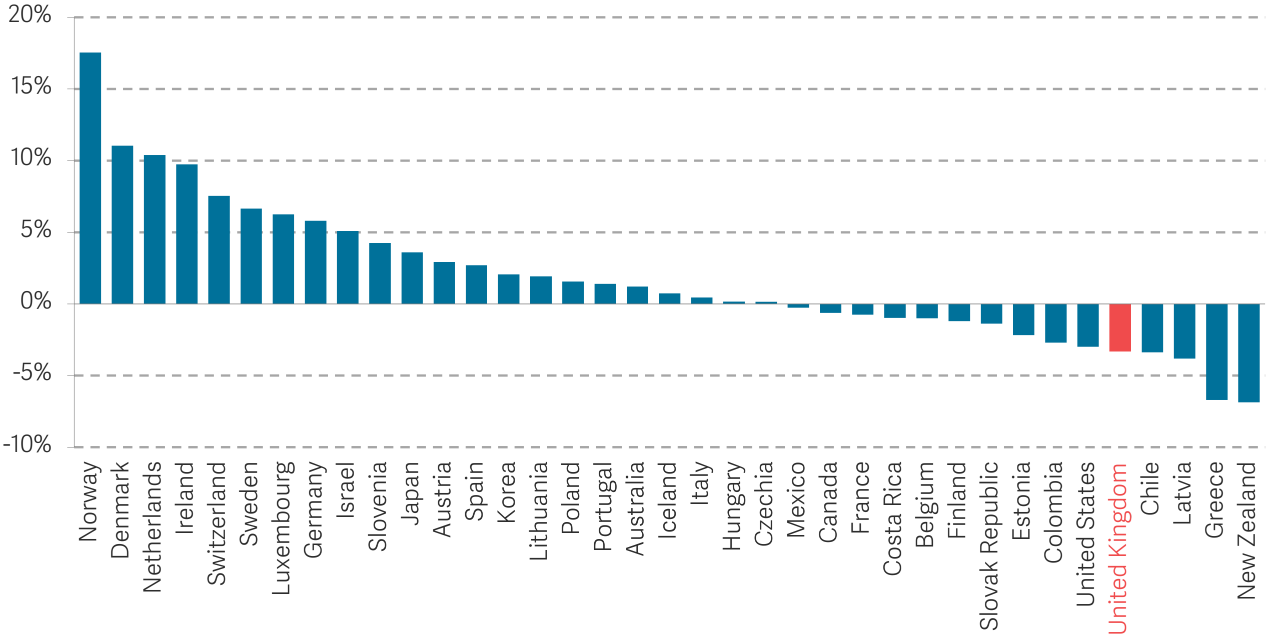
NOTES: Investment is additional to 'baseline of existing policies' at the time of the publication of the Government's net-zero strategy. Chart depicts the lower end of the range set out by the Government, with the higher investment scenario showing the extra investment to reach the upper end of the range set out by the Government: this difference is largely driven by higher investment in the power sector under a scenario involving higher demand "from end-use sectors". The first bar represents the three latter years of the third carbon budget, compared with the full five years of the fourth to sixth budgets.
SOURCE: Department for Business, Energy & Industrial Strategy, Net Zero Strategy: Build Back Greener, October 2021; ONS CPI.

We will need to take seriously how to pay for this investment. There are strong resilience arguments for higher investment to be financed by higher domestic saving rather than higher foreign borrowing. The UK is a country that already borrows a lot and saves very little. Our current account deficit is already the fifth highest in the OECD as a share of GDP, behind only Chile, Latvia, Greece and New Zealand, as shown in Figure 18. And our economy-wide rate of saving is the fourth-lowest in the OECD, behind Greece, Costa Rica and Slovakia.[41] But saving more means consuming less, at least in the short run, and neither party is confronting the trade-offs that come with securing this higher investment.

41 The economy-wide saving ratio is calculated as net saving plus capital consumption as a share of GDP in 2022, except for Norway and New Zealand where 2021 data is used due to data availability. Countries are all OECD members excluding those with missing data, namely Chile, Colombia, Iceland and Turkey. For more on low saving in the UK, see: P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023.

FIGURE 18: **The UK already relies heavily on the rest of the world for financing our investment**

Current account as a proportion of GDP: OECD, 2023



SOURCE: RF analysis of OECD, Balance of payments.

And third, the UK's declining goods exports are a further fly in the ointment for the UK's current account deficit. Any recovery in goods trade will need to confront the twin challenges of the 2020s: trade fragmenting along geopolitical lines, at the same time that the UK has implemented higher trade barriers with our closest – geopolitical and geographical – neighbour.

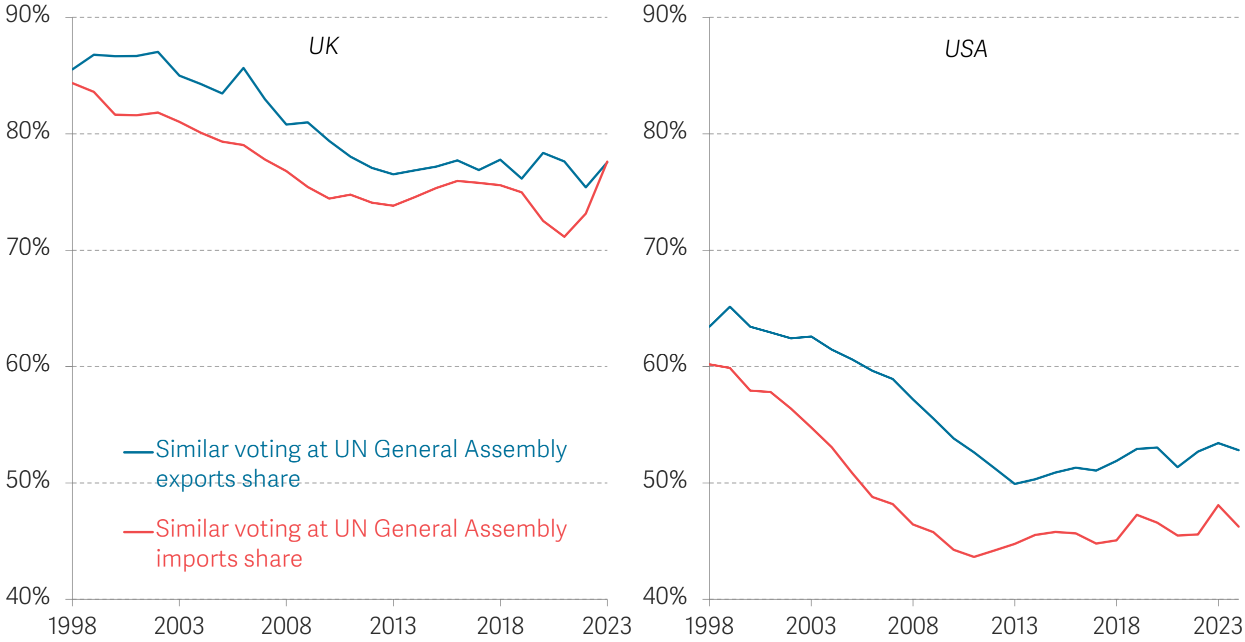
Until the 2010s, the UK was increasingly trading with countries who did not vote in a similar way to the UK at the UN General Assembly.[42] For example, the share of imports with countries voting similarly to the UK declined 10 percentage points from 85 per cent in 1998, to 75 per cent in 2010 (Figure 19), with this diversification of imports driven by the growth of China in particular. However, since 2010 (with the exception of the pandemic), the share of imports from countries voting similarly to the UK has remained at around 75 per cent, suggesting that trade with partners who aren't geopolitically aligned with the UK is no longer expanding. This tendency towards trading with our geopolitical neighbours is starker for the US and China, with some predicting that this trend will continue in the late 2020s.[43] However, thus far, the EU does not appear to be trading more with geopolitical neighbours.

42 Data has been collected on UN General Assembly voting between 2014 and 2021 by E Voeten, Data and Analyses of Voting in the UN General Assembly, Bob Reinalda, ed., Routledge Handbook of International Organization, 1st ed., London: Routledge, May 2013, chapter 4, May 2013. This data includes resolutions voted on by the UN General Assembly as a formal expression of the opinion of the UN organs.

43 For example, see: C Bosone et al., How geopolitics is changing trade, May 2024; J Seong et al., Geopolitics and the geometry of global trade, McKinsey Global Institute, January 2024.

FIGURE 19: **Trading with your geopolitical neighbour is becoming more common**

Proportion of goods imports and exports with countries voting in line with the UK and with the US at the UN General Assembly



NOTES: The similar voting bloc is based on the clusters visually emerging in heat maps of bilateral UN General Assembly voting similarity (using measures such as Signorino and Ritter, 1999; Scott, 1955; Cohen, 1960) between 2014 and 2021. These blocs are held constant over time.
SOURCE: RF analysis of ONS, UK services and UK trade time series; US Census Bureau, U.S. Trade in Goods by Country; B Javorcik et al., Economic costs of friend-shoring, CID Faculty Working Paper No. 422, December 2023.

But at the same time that global trade could fragment geopolitically, the UK is still tackling the trade frictions with the EU that have emerged from the Trade and Co-operation Agreement. Three years after Brexit, 57 per cent of manufacturing businesses continue to report that additional paperwork, customs duties, and border checks have increased exporting challenges for UK firms.[44]

The current Government's primary solution to these trade frictions is through digitising documents and processes as part of the 2025 UK Border Strategy.[45] However, the National Audit Office has highlighted the lack of a clear timetable for these ambitions, and the slow progress to achieve these goals. [46] Meanwhile, the Labour Party has said that it would forge a "closer relationship with our nearest neighbours in the EU" to ease bureaucracy and red tape; for example, through a veterinary agreement to enable food and agriculture to cross the UK-EU border more easily. At present, both Labour and Conservative parties' solutions to the trade frictions with the EU are narrow. While

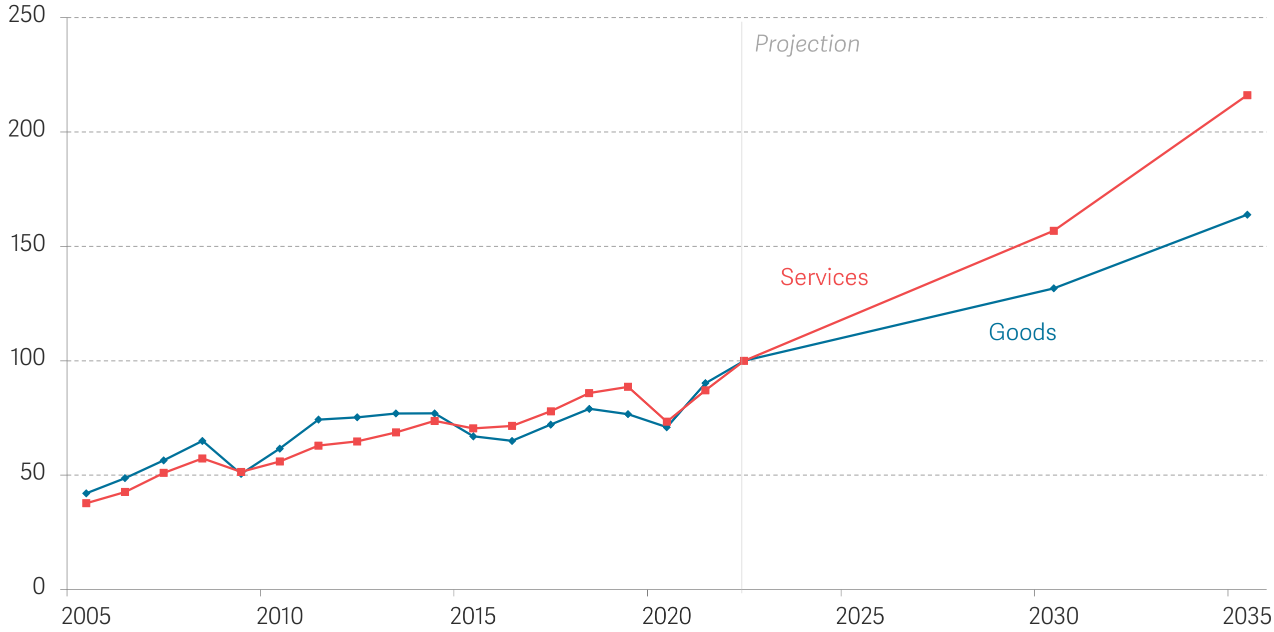
44 Analysis of ONS, Business insights and impact on the UK economy, May 2024. Response to question "Did your business experience an increase in any of the following exporting challenges in Month, Year, compared with the previous calendar month?". Data for January and February 2024. In addition, 35.9 per cent of manufacturing importers said they faced an increase in importing challenges.
45 Cabinet Office, 2025 UK Border Strategy, December 2020.
46 National Audit Office, The UK border: Implementing an effective trade border, May 2024.

they might ease some of the frictions that specific businesses face, they are unlikely to fundamentally change the prospects for goods exports and imports.[47]

On the other hand, the UK should be able to take advantage of services-export growth, which is forecast to grow more quickly than goods exports until at least 2035. Not only is the UK less reliant on the EU for services trade compared with goods trade,[48] but this is part of a longer-term trend; while global goods trade has doubled since 2005, services trade has expanded faster.[49] And the tilt towards services is expected to increase; global services exports are forecast to grow from 25 per cent to 28 per cent of total exports by 2035, as Figure 20 shows. This means that services exports are expected to double (increase by 116 per cent) between 2022 and 2035, while goods exports are projected to increase by 64 per cent.

FIGURE 20: **Services exports growth is expected to accelerate in the coming decade**

Indexed level of global goods and services exports (2022 =100)



NOTES: Current prices, includes precious metals. World growth in services trade projections from Global Trade Outlook and in nominal terms, and the share of services trade in total trade to grow from 25 per cent to 28 per cent by 2035. Forecasted values of trade in 2035 from IMF.
SOURCE: Analysis of DBT, Global Trade Outlook 2023, IMF World Economic Outlook, 2023, UNCTAD.

47 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.
48 In 2023, 40.3 per cent of the UK's services trade is with the EU compared with 53.1 per cent of goods trade. Analysis of ONS, GDP quarterly national accounts time series (QNA), May 2024.
49 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.

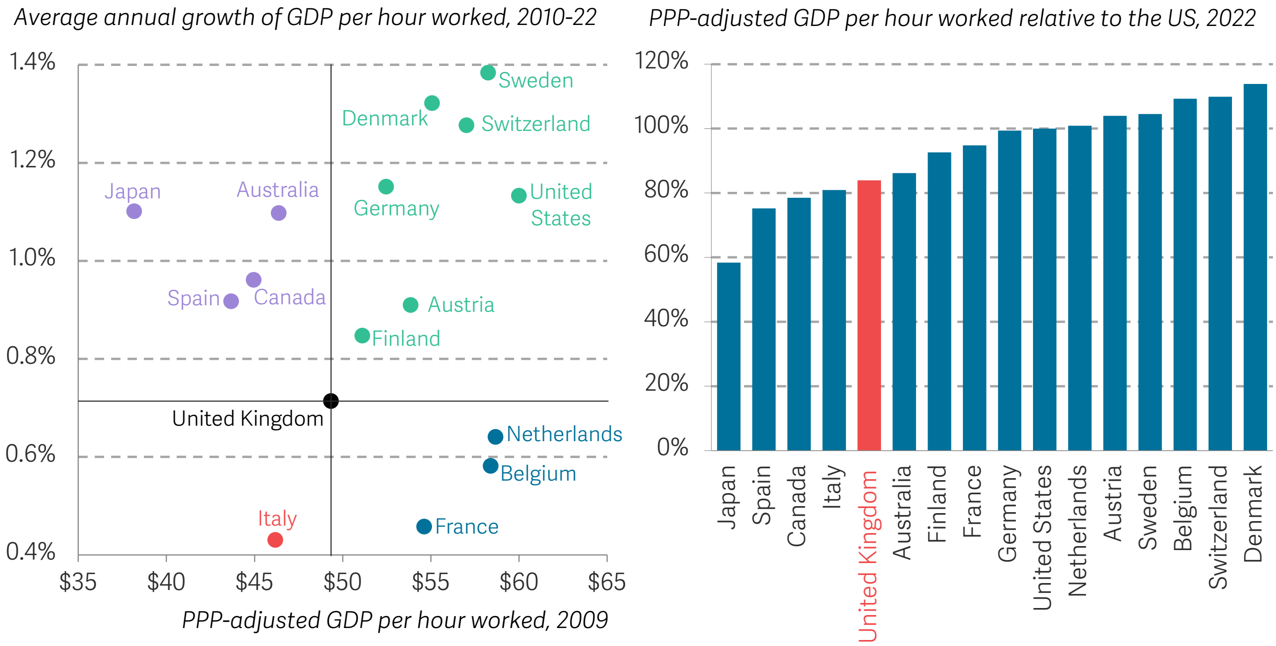
Having fallen behind on productivity, Britain has more scope for catch-up growth

The OBR is projecting an acceleration of annual productivity growth to 1.1 per cent over its forecast period, substantially faster than the 0.7 per cent we saw in the 2010s and more than double the rate in the whole period since the global financial crisis. If this growth acceleration does not come to pass, the prospects for the public finances and living standards will be even grimmer.[50]

The possibility of 'catch-up growth', the tendency for countries to experience faster productivity growth the further they are from the productivity frontier, offers the UK a silver lining. In recent years, there has been weak correlation between productivity gaps and productivity growth (Figure 21). But over the past 70 years, there is strong evidence that countries that start behind the frontier grow more quickly.[51] So, the stagnation of the past 15 years doesn't have to be the destiny for UK growth.

FIGURE 21: **Years of poor productivity performance have left the UK with big catch-up potential**

Average annual growth of GDP per hour worked, 2010-2022, and PPP-adjusted GDP per hour worked in 2009 (left panel) and PPP-adjusted GDP per hour worked in 2022 as a proportion of the United States (right panel): selected advanced economies



NOTES: Growth rates are calculated using GDP per hour worked in constant PPPs. Comparisons in the level across countries use are in current prices and current PPPs.
SOURCE: RF analysis of OECD, Level of GDP per capita and productivity.

50 C McCurdy, C Pacitti & J Smith, Debt dramas: Putting the public finances in context ahead of general election 2024, Resolution Foundation, June 2024.
51 J Smith, As good as it gets? The forces driving economic stagnation and what they mean for the decade ahead, Resolution Foundation, July 2022.

Indeed, the potential for 'catch-up' growth currently provides two compelling reasons for optimism. First, the resilience of productivity growth in the US – the productivity frontier – creates more space for catch-up growth in the UK. And second, relatively weak post-financial crisis productivity growth in the UK has opened up a bigger gap for us to close as shown in Figure 21. The pace of growth at the global frontier is not the primary constraint for the UK today, as we are starting from a position well behind the leaders. While the UK's productivity, as measured by GDP per hour, was just below the G7 average in 2022, it was 13 to 19 percent higher in the US, Germany, and France, indicating significant productivity gains that the UK can aim for. Moving towards the average productivity of these countries would boost productivity levels by 17 per cent for the UK.[52]

Given the UK's recent history and the persistent challenges we continue to encounter, it is tempting to be pessimistic about our future growth prospects. With the trick of delivering growth by expanding labour supply unlikely to be repeated, a great deal hangs on the future of productivity growth in the UK. The fact that productivity growth has slowed across so much of the high-income world underscores the reality that much lies beyond the control of UK policy makers. But there are reasons for optimism. The UK has suffered worse than most from these trends leaving Britain with more potential to catch-up to the frontier. And there is the possibility to boost productivity through higher investment and leveraging Britain's longstanding strengths in services should policy enable it. To seize these opportunities, the path forward for the UK would require the hardest thing of all: a coherent growth strategy.

52 Office for Budget Responsibility, Economic and fiscal outlook, March 2024.

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