

# **Low-wage sectors and improving productivity in Warwickshire**

*A strategy for growth*

# Outline

## ***Current performance***

- Economic performance in “low-wage” industries over the last ten years
- Comparative productivity analysis against neighbouring LEP areas
- Qualification patterns in “low-wage” industries: is there a link with productivity?
- Business starts in “low-wage” industries
- The role of women in “low-wage” industry employment

## ***Future performance***

- Baseline economic forecasts by 2025
- Warwickshire’s competitiveness against the UK: now and into the future
- Future outlook: will increasing productivity in “low-wage” industries benefit Warwickshire’s economy?

## ***Policy recommendations***

# What are the low-wage sectors?

IPPR classifies the following sectors as “low-wage” industries based on **nationally low earnings and productivity...**

- ***Agriculture, forestry & fishing***
- ***Wholesale & retail trade; repair of motor vehicles***
- ***Accommodation & food services***
- ***Administration & support services***
- ***Arts, entertainment & recreation***
- ***Households as Employers***

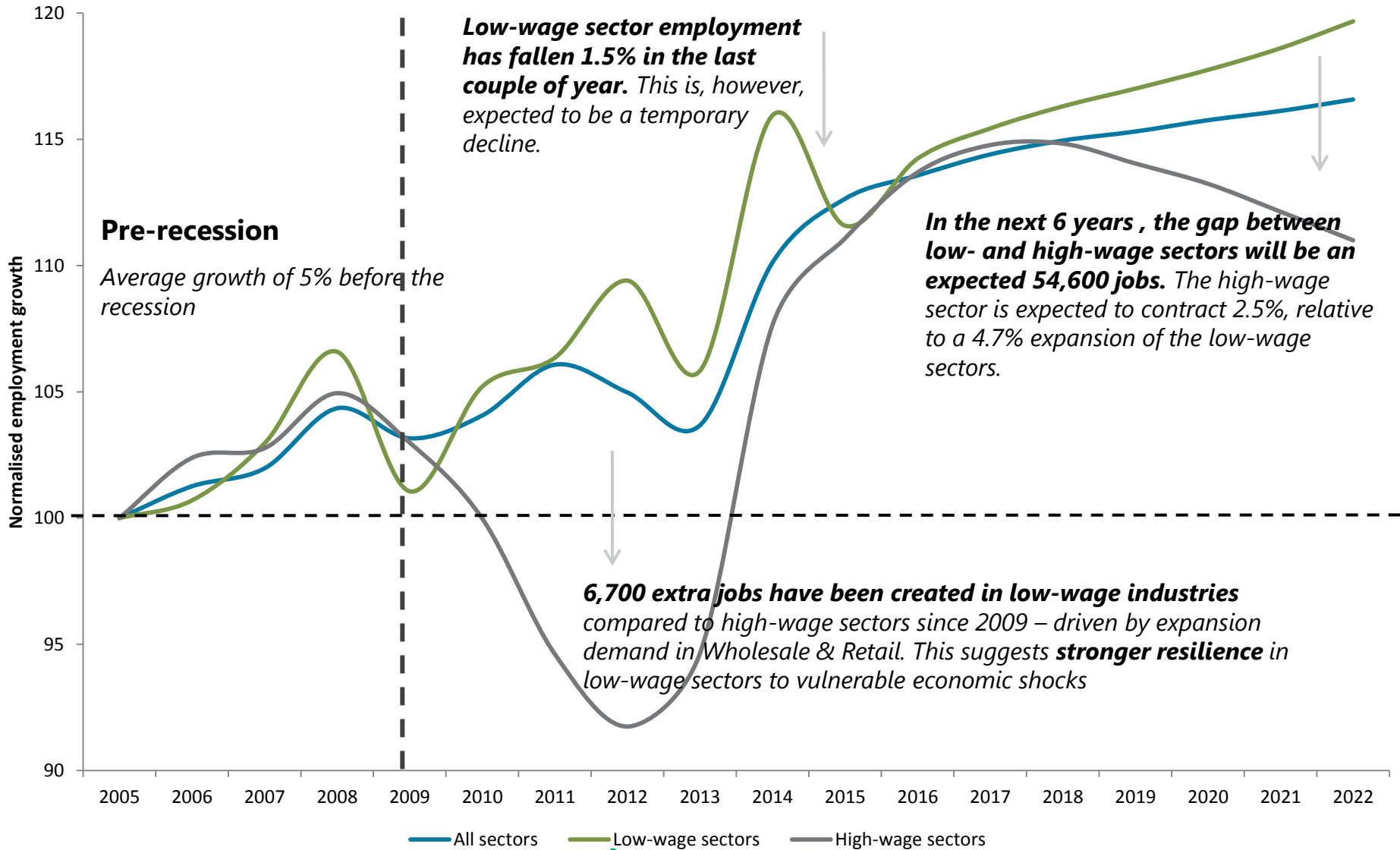
Government policy has so far, focused on improving productivity in “high-value” sectors such as manufacturing, IT services and finance. However, these industries already benefit from high productivity.

# Why focus on low-wage sectors?

1. Growth in lower-paid, less secure jobs as well as high-earning roles is **widening income inequalities**; contributing to issues such as working poverty and the gender-pay gap. This has resulted in the "**hollowing out**" of **middle-skilled jobs**, particularly in low-wage industries
2. There is a strong positive link between wages and productivity. "Marginal propensity to consume" theory (MPC) states that **increasing wages for low-income workers will have a greater impact on their personal expenditure** patterns compared to higher-income earners. This determines the rate of growth nationally and locally.
3. In Warwickshire, **over a third of residents (34%) are employed in low-wage industries** – doubling high-wage employment (14%)

# CURRENT PERFORMANCE

# Job growth by sectors in Warwickshire (2005-16)



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# Economic performance in low-wage industries

2016	Proportion of low-paid jobs (WM level)	Estimate of Employees by sector	Estimate of low-paid jobs	Proportions of low-paid jobs of total Warwickshire jobs
<b>Low-paid sectors</b>				
Accommodation	40%	5577	2230.8	0.8%
Other personal service activities	40%	3652	1460.8	0.5%
Other professional, scientific and technical activities	40%	2391	956.4	0.3%
Residential care activities	40%	6670	2668	1.0%
Retail trade, except of motor vehicles and motorcycles	40%	23655	9462	3.4%
Services to buildings and landscape activities	40%	4822	1928.8	0.7%
Activities of Households as Employers	30%	440	132	0.0%
Crop and animal production, hunting and related service activities	30%	324	97.2	0.0%
Employment activities	30%	7879	2363.7	0.9%
Gambling and betting activities	30%	341	102.3	0.0%
Social work activities without accommodation	30%	7152	2145.6	0.8%
Sports activities and amusement and recreation activities	30%	4520	1356	0.5%
<b>Extreme low-paid sectors</b>				
Food and beverage service activities	60%	14183	8509.8	3.1%
<b>Warwickshire total</b>		<b>276.807</b>	<b>31183</b>	<b>12.1%</b>

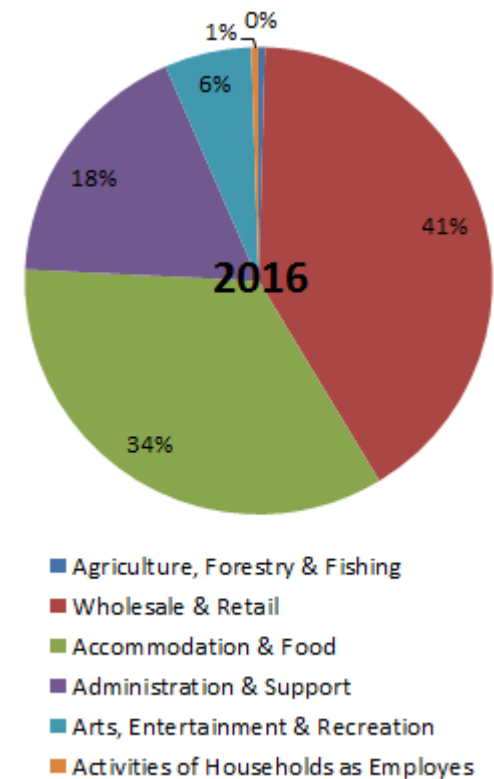
Based on ASHE proportions, **12.1% of Warwickshire's residents work in low-paid jobs; earning less than £15,000 a year**



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# Economic performance in low-wage industries

IPPR industries	Proportion of low-paid jobs (WM level)	Employees by sector	Estimate of low-paid jobs	Proportions of low-paid jobs of total Warwickshire jobs
Agriculture, Forestry & Fishing	30%	501	150	0.1%
Wholesale & Retail	30%	46,998	14,099	5.1%
Accommodation & Food	60%	19,760	11,856	4.4%
Administration & Support	30%	20,338	6,101	2.2%
Arts, Entertainment & Recreation	30%	6,903	2,071	0.8%
Households as Employes	40%	440	176	0.2%
<b>LOW-WAGE INDUSTRIES</b>			<b>34,454</b>	<b>12.8%</b>



*Based on IPPR definition of “low-wage industries”, **12.8% of Warwickshire’s residents work in low-paid jobs in these sectors; earning less than £15,000 per year***



# Impacts of National Living Wage (NLW)

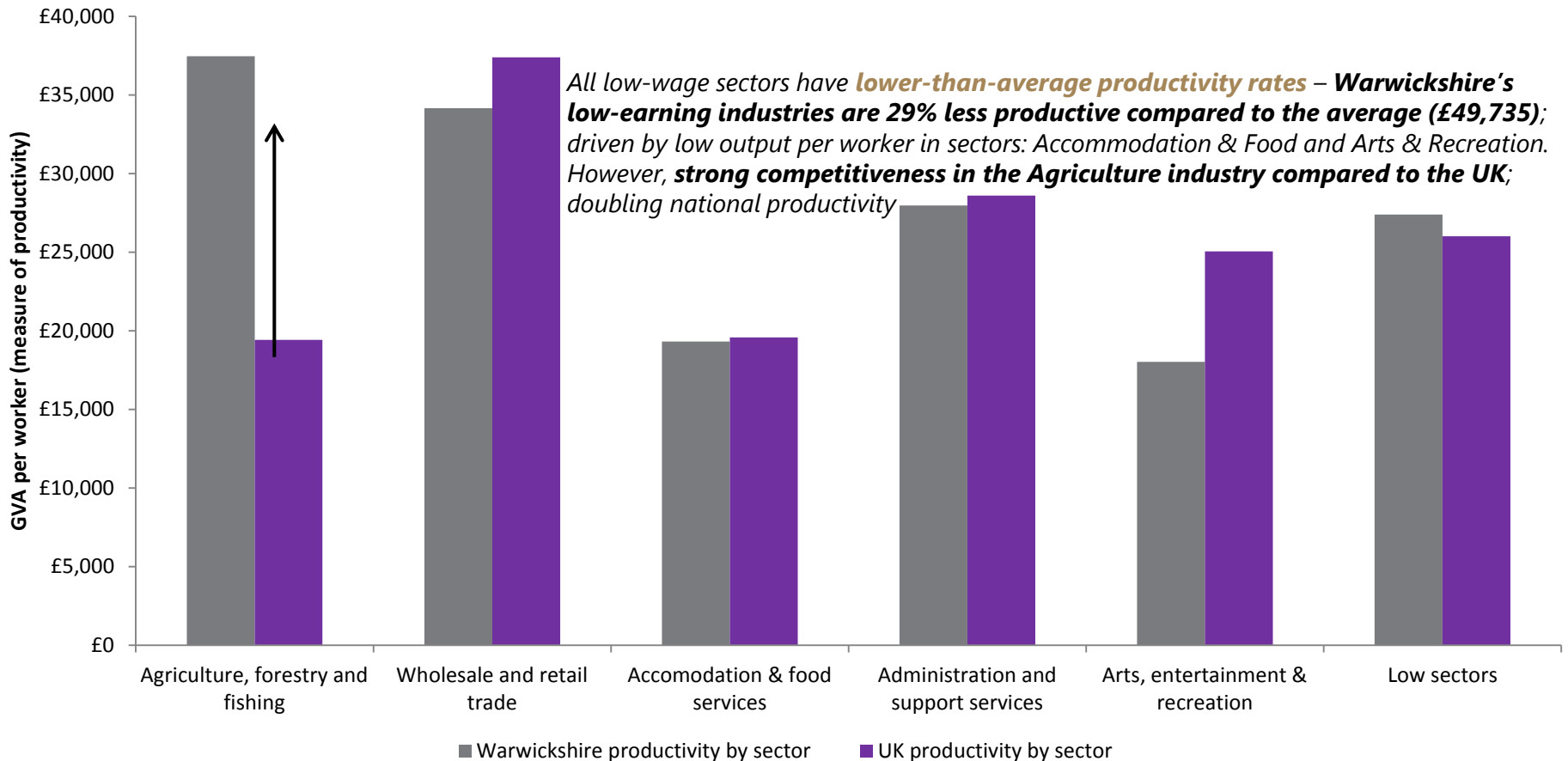
- In April 2017, the minimum wage for over 21s will increase from £7.20 to £7.50 (NLW for over 25s). By 2020, this is projected to rise to about £9
- **16,100 residents in Warwickshire are paid less than the NLW** (£7.50 p/h) in 2016, 11,200 of which are in low-wage sectors.
  - ✓ ***Agriculture, Forestry & Fishing***
  - ✓ ***Wholesale & Retail trade; repair of motor vehicles and motorcycles***
  - ✓ ***Accommodation & Food service activities***
  - ✓ *Real estate activities*
  - ✓ ***Human Health & Social Work activities***
  - ✓ ***Arts, Entertainment & Recreation***
  - ✓ *Other Service activities*
- **14,775 businesses in Warwickshire are impacted by NLW – annual cost averaging £484 per firm**

# Impacts of National Living Wage (NLW)

<b>Industries</b>	<b>Number of residents affected</b>
<b>Retail trade, except of motor vehicles and motorcycles</b>	3,927
<b>Employment activities</b>	1,634
<b>Residential care activities</b>	1,384
Wholesale trade, except of motor vehicles and motorcycles	1,262
<b>Social work activities without accommodation</b>	1,187
<b>Food and beverage service activities</b>	1,177
Activities of head offices; management consultancy activities	746
Wholesale and retail trade and repair of motor vehicles and motorcycles	675
<b>Sports activities and amusement and recreation activities</b>	563
<b>Accommodation</b>	463
Manufacture of fabricated metal products, except machinery and equipment	416
Manufacture of food products	415
<b>Other professional, scientific and technical activities</b>	397
Office administrative, office support and other business support activities	344
Real estate activities	264
<b>Services to buildings and landscape activities</b>	200
Rental and leasing activities	179
<b>Other personal service activities</b>	152
Manufacture of rubber and plastic products	142
Manufacture of electrical equipment	136
Activities of membership organisations	128
<b>Activities of households as employers of domestic personnel</b>	91
<b>Gambling and betting activities</b>	71
Waste collection, treatment and disposal activities; materials recovery	57
<b>Crop and animal production, hunting and related service activities</b>	54

# Economic performance in low-wage industries

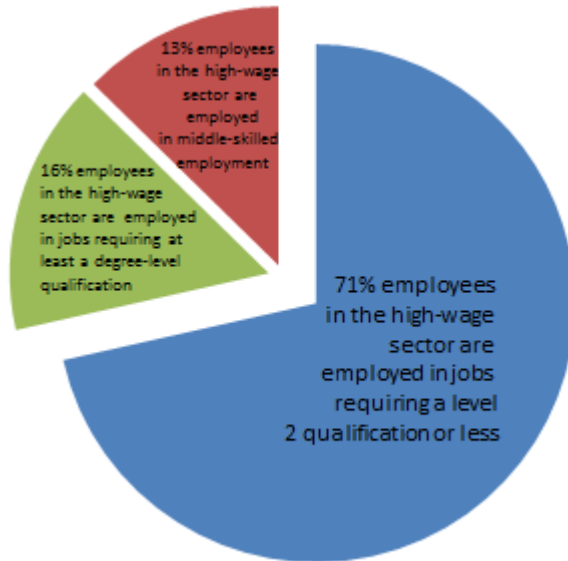
## Low-wage sector productivity in Warwickshire and the UK (2016)



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# Qualifications and implications for productivity

## Low-wage sectors



## High-wage sectors



- **7 in 10 workers (71%) employed in the low-wage sectors are low-skilled** with at least level 2 qualifications: GCSEs A\*-C. Only 16% of residents who work in low-wage sectors have a degree-equivalent qualification. Over a third of people are employed in low-wage sectors in Warwickshire, and with such a high proportion of those having relatively low qualification levels, it explains the productivity gap between low- and high-wage sectors.
- Those in middle-skilled employment (level 3 and 4 qualifications) is the smallest proportion in high-wage sectors. The **“hollowing-out” of middle skilled employment** in Warwickshire’s high-wage sectors is reflective of the national economy – polarisation of job quality due to technological change, shifts in workforce educational attainment and growing wage inequality

# Business-starts and implications for productivity

	Warwickshire	England
<b>Low sectors</b>		
Agriculture, forestry and fishing	58	4,780
Wholesale and retail trade	165	20,804
Accommodation & food services	86	7,216
Administration and support services	155	13,860
Arts, entertainment & education	116	11,776
Low sectors	580	58,437
Total	2,178	197,027
<b>Proportion of business-starts in low-wage sectors</b>	<b>27%</b>	<b>30%</b>
<b>High sectors</b>		
Manufacturing	83	8,616
Information & communication	74	9,992
Financial & insurance services	140	10,819
High sectors	297	29,427
Total	2,178	197,027
<b>Proportion of business-starts in high-wage sectors</b>	<b>14%</b>	<b>15%</b>

## ***In Warwickshire, business starts in low-wage industries nearly double those in high-wage sectors..***

- In 2014, over a quarter (27%) of business-starts in Warwickshire were in low-wage sectors; slightly under the national average of 30%. This is driven by the under-representation of business start-ups in Wholesale & Retail
- Despite Wholesale & Retail appearing in Warwickshire's top five industries for business starts, there are a higher number of business start-ups in priority sectors - such as Professional Services and Transportation & Storage . In comparison, two of the top five nationally are in low-wage sectors.
- Nesta reports that at the UK level, there are insufficient high-productivity start-ups to compensate for the larger number of new firms with low levels of productivity.
- Access to finance and innovation may be more restricted for businesses operating in low-wage sectors – increasing market competition can push productivity from the business base

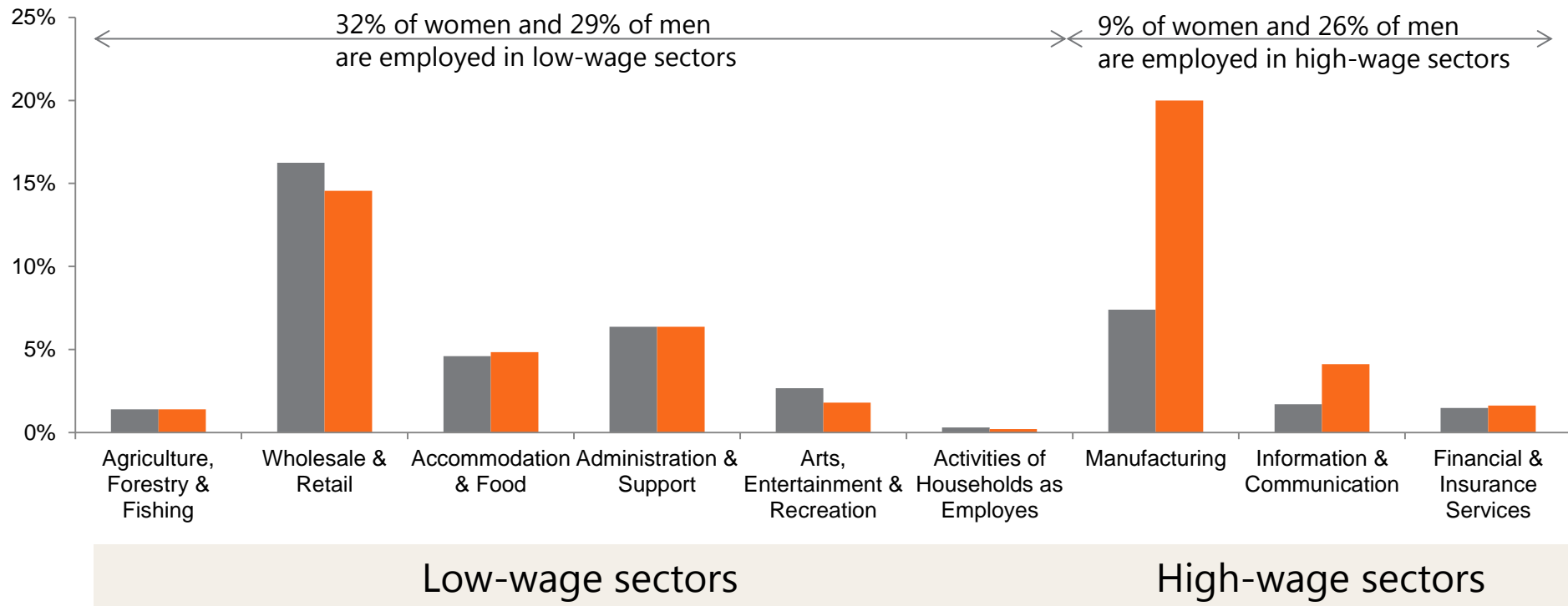
***Does business productivity contribute more than labour to the "productivity puzzle" and can we make low-wage sector firms more productive in the long term?***



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# Women and implications for productivity

*In Warwickshire, males are more than twice as likely to work in high-wage sectors compared to females; contributing to a widened gender pay gap and affecting long term productivity. There are a larger proportion of females working in low-wage sectors (32%) which represents approx. 39,000 jobs.*

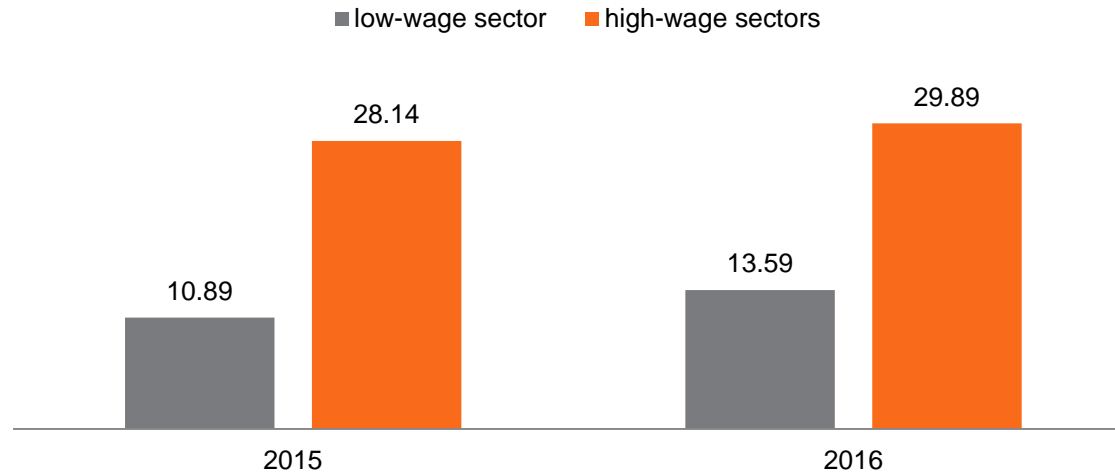


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# Job Demand by Sector

- **Job demand in Warwickshire is growing faster in low-wage sectors.** Over the last year, job listings in low-wage sectors increased 25% compared to 6% in high-wage sectors.
- **Job demand in high-wage sectors is stronger than in low-wage sectors** relative to the employment size in each sector.

## Job demand per 1,000 jobs



# Key Summary

- Low-wage industries has generated a much bigger proportion of new jobs – fuelling post-recession growth
- 12.1% of Warwickshire's residents work in low-paid jobs; earning less than £15,000 a year
- 16,100 residents in Warwickshire were paid less than the NLW – potentially affecting 14,775 businesses in mostly “low-wage industries”; with average annual cost of £484 per firm
- Warwickshire's low-earning industries are 29% less productive compared to the average (£38,600)
- Only 16% of residents who work in low-wage sectors have a degree-equivalent qualification – emphasising higher-skill shortages
- Warwickshire's new businesses are generally creating more jobs in less-productive, low-wage industries; compared to high-wage sectors



# FUTURE PERFORMANCE

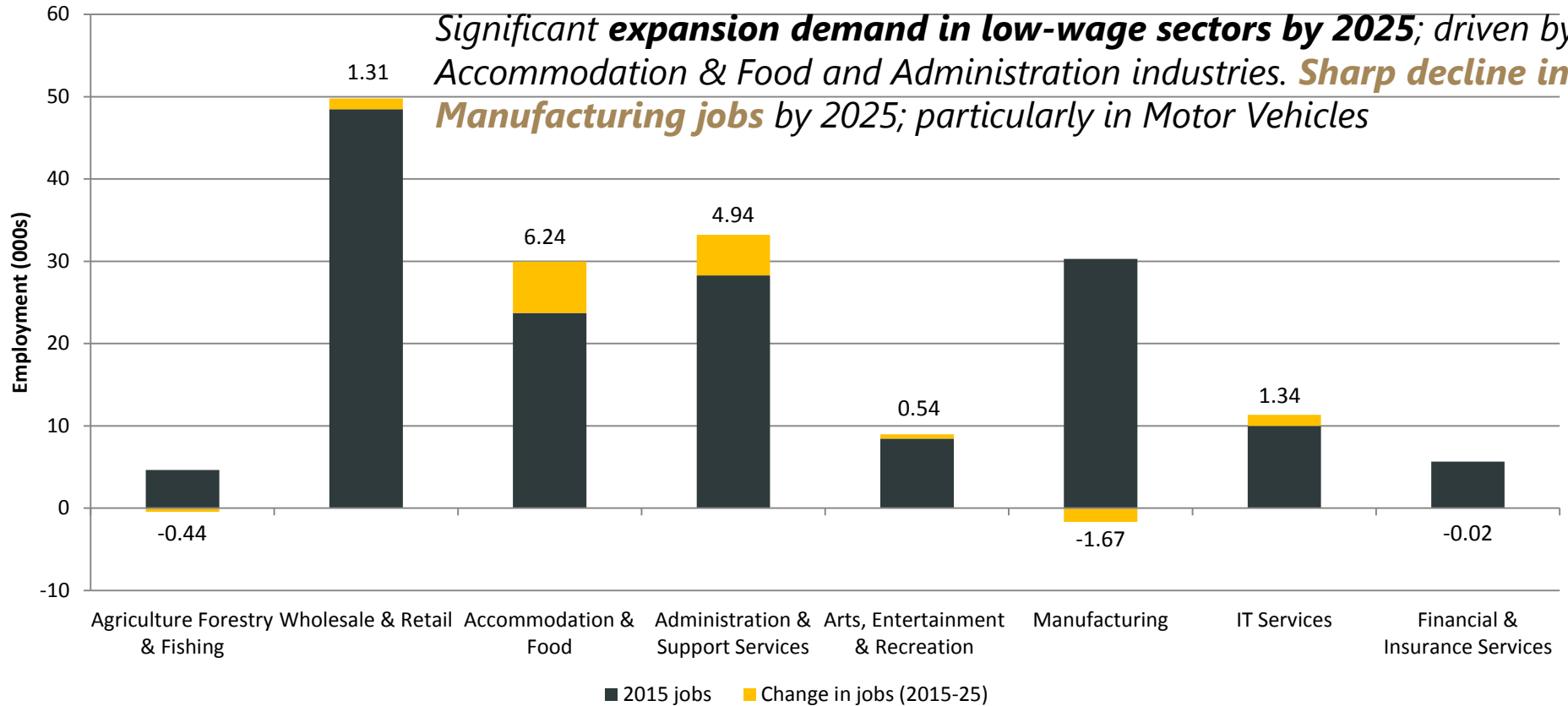
# By 2025: Changes in employment

## Job change by 2025

12,050 new jobs in low-wage sectors

350 fewer jobs in high-wage sectors

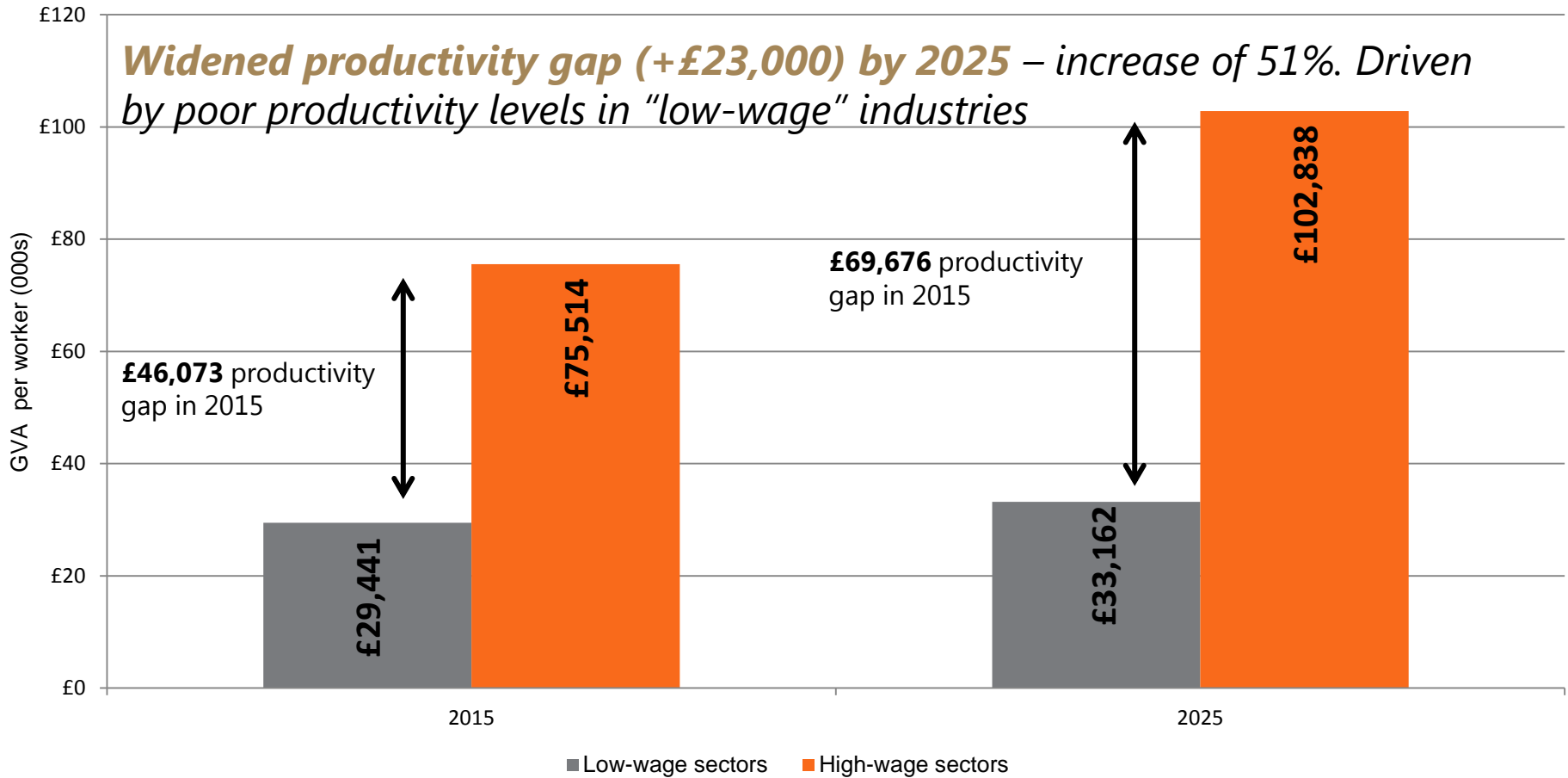
Significant **expansion demand in low-wage sectors by 2025**; driven by Accommodation & Food and Administration industries. **Sharp decline in Manufacturing jobs** by 2025; particularly in Motor Vehicles



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# By 2025: Changes in productivity

## Productivity gap (2015-25)



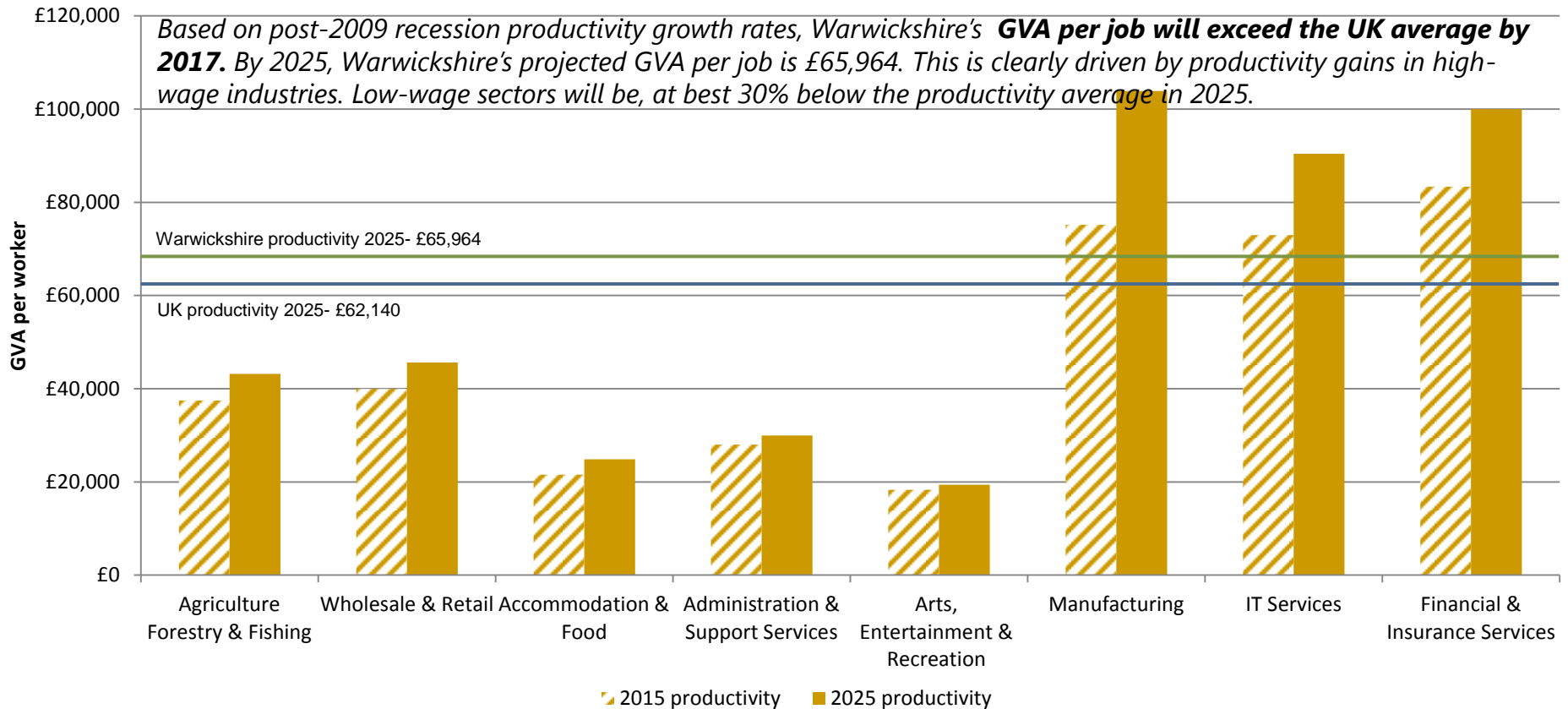
# By 2025: Changes in productivity

## Productivity by 2025

£33,162 average productivity in low-wage sectors

£102,838 average productivity in high-wage sectors

Based on post-2009 recession productivity growth rates, Warwickshire's **GVA per job will exceed the UK average by 2017**. By 2025, Warwickshire's projected GVA per job is £65,964. This is clearly driven by productivity gains in high-wage industries. Low-wage sectors will be, at best 30% below the productivity average in 2025.



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# Future impact scenario (1): increasing low-wage sector productivity by 10% in Warwickshire

## ***By 2025, a 10% rise in low-wage sector productivity will...***

- Increase total productivity by 4% (equivalent to an extra £1,660 produced per worker); averaging £46,000 per worker by 2025
- Increase economic output by 5% - equivalent to an injection of £560 mill in economy by 2025
- Generate job creation – an extra 15,300 and 5,400 people employed in low-wage and high-wage industries respectively

## Future impact scenario (2): increasing low-wage sector productivity by 20% in Warwickshire

### ***By 2025, a 20% rise in low-wage sector productivity will...***

- Increase total productivity by 9% (equivalent to an extra £3,320 produced per worker); averaging £47,800 per worker by 2025
- Increase economic output by 9% - equivalent to an injection of over £1bn in economy by 2025
- Generate job creation – an extra 27,000 and 9,700 people employed in low-wage and high-wage industries respectively

# Key Summary

- 12,050 new jobs in Warwickshire's low-wage industries by 2025; compared to 350 fewer in high-wage industries
- Low-high wage productivity gap forecast to widen significantly (+51%) to £69,000 by 2025
- Low-wage productivity will reach £33,100 per worker on average by 2025; much less than the national average – compared to £108,800 in high-wage industries (outperforming the UK)

# POLICY RECOMMENDATIONS



# Impacts of National Living Wage (NLW)

## Opportunities for “low-wage” industries:

- Increased employee morale – improving efficiency
- Induces higher demand for the extra output created – raising firm competitiveness
- Boosted productivity from NLW will lead to further growth in wages in long term – creating a “high-wage” growth economy
- Incentives to maximise skills under-utilisation via better management and training

## Challenges for “low-wage” industries”:

- Some businesses may move towards hiring younger workers (under 25s) to reduce costs
- May cause a slight drop in employment in short-term to absorb wage increases – particularly low-skilled workers
- May encourage a longer-term incentive to replace workers with capital
- SMEs in particular may reduce profits to absorb wage increases

# Increasing future productivity of low-wage sectors in Warwickshire

***The following summarises policy priorities to address low-wage sector productivity...***

- 1. Increasing business demand in low-wage industries** by encouraging skill utilisation, job design and managerial practices to improve competitiveness against the high-wage sectors
- Supporting business growth by **rebalancing targeted funding streams away from technology-intensive activity to address poor innovation** in low-wage sectors
- 3. Upskilling the current and future workforce** in low-wage industries; increasing workers educated at degree level
- Equally **supporting new business start-ups in high-wage industries** to compensate for the gap in business performance
- Providing **knowledge assistance to SMEs in low-wage industries**, who wish to increase their productivity

# Acknowledgement

- This work was undertaken and presented by Natalie Henderson and subsequently updated by Sam van de Schootbrugge on 31<sup>st</sup> March 2017.
- The data for this piece has been taken from a variety of sources. The author is willing to share all publicly available data used, upon request. The most up-to-date data has been used and is correct up until 1<sup>st</sup> April 2017.
- If you would like to find out more about the research we are currently doing or the work we have been commissioned to do in the past, visit our Warwickshire County Council Economic Assessment Webpage on <http://www.warwickshire.gov.uk/economicassessment> or contact us by email: [samvandeschootbrugge@warwickshire.gov.uk](mailto:samvandeschootbrugge@warwickshire.gov.uk) or by phone: 01926 412949