GLAECONOMICS

Wage and productivity growth in London since 2008

Regional and borough overview

May 2024

Context

There is ample evidence that London's (and the UK's) macroeconomic productivity have slowed down since the 2008 Financial Crisis, with adverse consequences for certain economic and social outcomes in the capital.

GLA Economics recently compared growth in real average pay by London borough to demonstrate the vulnerabilities caused by the productivity slowdown since 2008.

Key points

- Office for National Statistics (ONS) data shows that London's productivity (output per hour) grew by 1.5% between 2008 and 2021 (in real terms).
    - This compares to 6.9% and 5.9% growth in real productivity over the same time period for the UK and England, respectively.
    - While London remains the country's most productive region (the capital was over 30% more productive than the UK average in terms of output per hour worked in 2021), its productivity growth has lagged the national average over the past 15 years.
- This productivity slowdown has dented London's ability to realise its economic potential and enhance its prosperity.
    - Using data collected from the Annual Survey of Hours and Earnings (ASHE), GLA Economics analysed growth in average real pay by London borough from 2008 to the most recent data point available for each borough (which is either 2022 or 2023).
    - Of London's boroughs, only Newham and Lambeth experienced growth in their average real pay since 2008. Some boroughs, including Hammersmith and Fulham and Westminster, experienced significant average pay declines in real terms.
- This indicates that while London might exceed other regions in terms of productivity and per-capita income levels, the post-Financial Crisis productivity slowdown has significantly impacted the real purchasing power of median households, with implications for their social outcomes.

- The reasons underlying London's (and the UK's) productivity slowdown relate principally to the UK's lack of economic competitiveness as a country (especially compared to other G7 countries) as well as limitations within the framework of the national 'Levelling-Up agenda' to redistribute economic growth and prosperity across different UK regions.

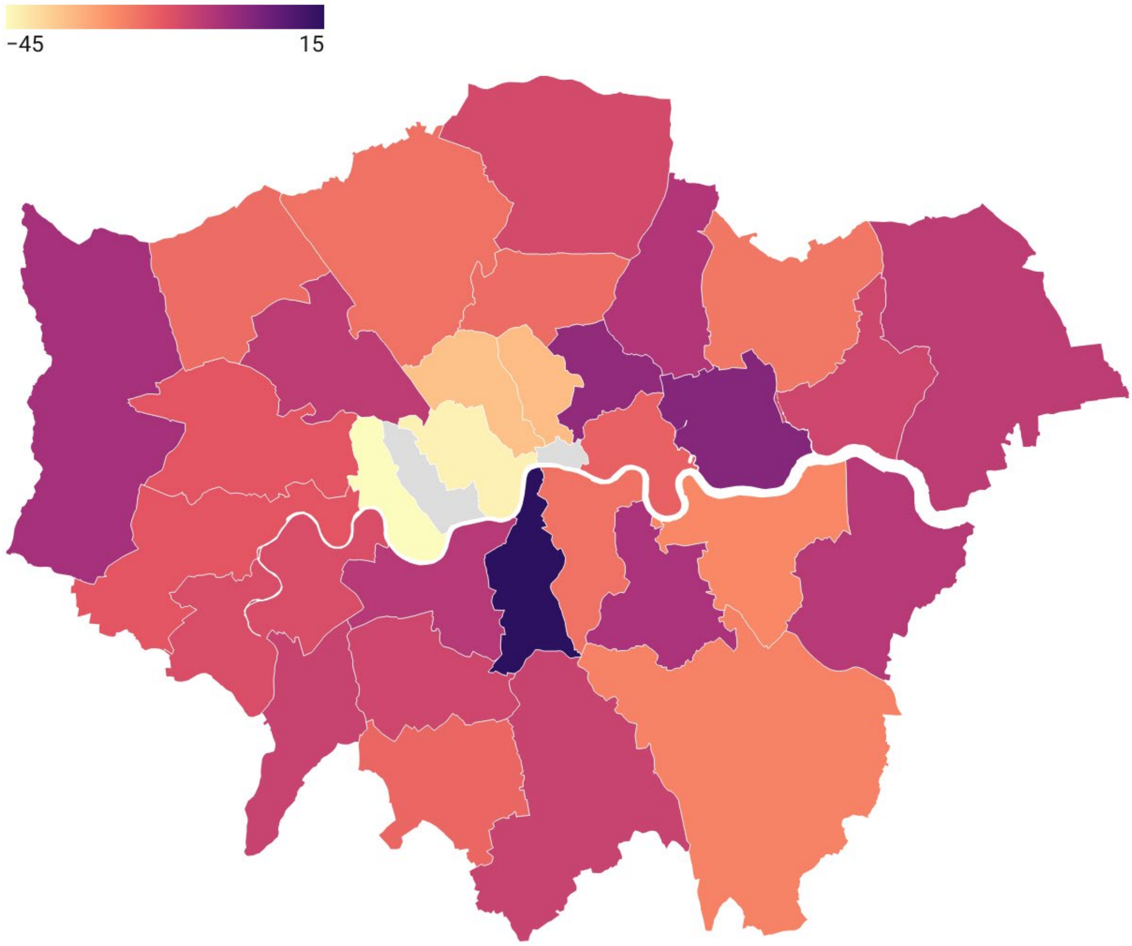
Productivity and wage growth in London

- Previous analysis by GLA Economics[1] showed that as of April 2022, median annual pay for all employee jobs in London was £36,700, significantly above the UK median of £27,800.
    - However, when adjusted for inflation, gross annual pay in the capital in 2022 was approximately £2,900, or 7%, lower than in 2010.
- The city's productivity slowdown from 2008, in particular the low rate of growth in output per hour worked in real terms since the Financial Crisis, has contributed to this reduction in real pay.
- GLA Economics modelled a couple of counterfactual scenarios to demonstrate that point. It showed that if nominal pay growth had followed its:
    - 1999-2007 trend, median annual pay in London would be approximately £14,500 higher in 2022. In real terms, this would be 29% above 2010 levels.
    - 1999-2010 trend, median annual pay in London would be approximately £10,800 higher in 2022. In real terms, this would be 20% above 2010 levels.
- This analysis has now been supplemented by data collected from the Annual Survey of Hours and Earnings (ASHE) on real average pay by London borough between 2008 and the latest datapoint available for each borough (where available).
- The figure below presents the change in real average pay by borough from 2008 to the latest datapoint available (which is 2023 for most boroughs with a few exceptions)[2].

[1] Pay and Inflation Trends in London and the UK, 2010-2022 - London Datastore

[2] No data for 2008, 2022, and 2023 was available for Kensington and Chelsea and City of London. Meanwhile, for Kingston upon Thames and Richmond upon Thames, 2022 data was used as 2023 data was not available. Appendix 1 provides the actual percentage growth or reduction in real average pay by borough.

Change in real average annual wage by borough, 2023 vs 2008, (%)



Source: ONS. Map data Crown copyright and database right 2018. Created with Datawrapper

- The map demonstrates that with the exception of Newham (1% growth) and Lambeth (15% growth), London boroughs experienced significant decreases in their average annual pay in real terms since 2008.

- Broadly speaking, Inner London boroughs, while having higher levels of average real pay, experienced sharper drops in real average pay than their Outer London counterparts.

    - Boroughs that experienced significant declines in real average pay include Hammersmith and Fulham (-45%), Westminster (-43%), Camden (-34%) and Islington (-33%).

    - On average, real average pay growth for Outer London boroughs since 2008 was -12%, compared to -20% for Inner London boroughs.

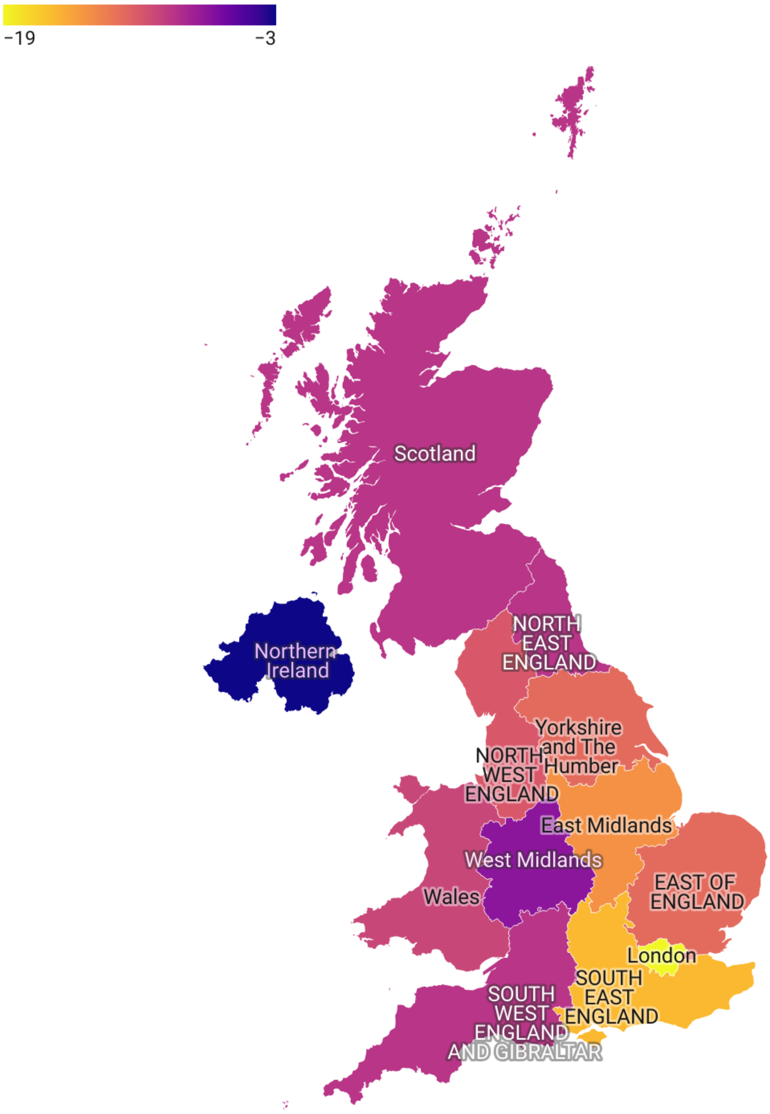
- This data corroborates recent analysis by the Trade Union Congress regarding the concentration of pay 'black spots' in London compared to other UK regions[3].

[3] [Real terms average pay lower in most UK local authorities than in 2008, TUC finds | Austerity | The Guardian]

Implications

- This reduction in real average pay across London is a consequence to the feeble growth in London's (and the UK's) overall productivity since the Financial Crisis.
    - While London retains its position as the country's most productive region, growth in real productivity (real output per hour worked) since 2008 has been considerably slower in London (1.5%) than the UK (6.9%).
- The figure[4] below shows real average pay growth by UK region between 2008 and 2023. It shows that London experienced the sharpest decline in real average pay (-19%) despite having the highest income levels; this compares to -3% in Northern Ireland (the region that experienced the smallest drop in real average pay over that period), -7% in the West Midlands, and -9% in Scotland.

Growth in real average pay by region, 2023 vs 2008, (%)



Source: Annual Survey of Hours and Earnings. Created with Datawrapper

[4] The appendix includes a table with a breakdown of the actual changes in real average pay by region.

- This slowdown in both London's productivity and pay growth (in real terms) since 2008 highlights vulnerabilities in the city's economic performance since the Financial Crisis, and the implications for the UK's future prosperity are serious.
    - As the nation's economic engine, a slowdown in London's real productivity and pay is likely to reverberate across other regions over time, undermining the effort to reduce regional economic inequalities.
    - Moreover, this slowdown is likely to lead to deteriorating social outcomes within London on various measures- from health to educational attainment. The GLA's upcoming State of London Report (to be released June 2024) will present the data and linkages between such variables and parameters in greater detail.
- The reasons for London's (and the UK's) productivity slowdown are numerous. Nevertheless, previous work by GLA Economics highlighted potential key reasons, including chronic business underinvestment at the national level (compared to other G7 economies), poor national record in investment in infrastructure and research and development (R&D), and increasing income inequality since 2010[5].
    - Moreover, it is worth noting that recent data shows that the UK government's 'Levelling-up' agenda, which was meant to redistribute economic growth and prosperity across the country, has not delivered satisfactorily on this, with other regions outside London not receiving enough funding to boost their economic prosperity and London being sidelined in favour of investment in other regions[6]. As a result, neither London nor the rest of the UK have experienced a significant boost to their economic growth and prosperity.

[5] Pay and Inflation Trends in London and the UK, 2010-2022 - London Datastore
[6] No progress made on half of UK government's levelling-up targets | Politics | The Guardian

Appendix

Table 1: Real average pay by borough (2023 vs. 2008)

Borough	Growth in real average pay (2023 vs 2008)
Hammersmith and Fulham	-45%
Westminster	-43%
Camden	-34%
Islington	-33%
Greenwich	-24%
Bromley	-23%
Redbridge	-21%
Southwark	-20%
Barnet	-20%
Harrow	-19%
Haringey	-19%
Sutton	-18%
Tower Hamlets	-17%
Ealing	-15%
Hounslow	-15%
Richmond upon Thames	-13%
Enfield	-12%
Barking and Dagenham	-11%
Merton	-11%
Kingston upon Thames	-10%
Croydon	-10%
Brent	-8%
Havering	-8%
Wandsworth	-7%
Bexley	-7%
Waltham Forest	-6%
Lewisham	-5%
Hillingdon	-4%
Hackney	-1%
Newham	1%
Lambeth	15%

Source: Annual Survey of Hours and Earnings (ASHE)

Table 2: Real average pay by UK region (2023 vs. 2008)

Region	Growth in real average pay (2023 vs. 2008)
Northern Ireland	-3%
West Midlands	-7%
Scotland	-9%
North East	-9%
South West	-9%
Wales	-10%
North West	-11%
Yorkshire and The Humber	-12%
East	-12%
East Midlands	-14%
South East	-16%
London	-19%

Source: Annual Survey of Hours and Earnings (ASHE)

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