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Trade dispute between the US and other countries ramps up

By **Gordon Douglass**, Supervisory Economist, and **Eduardo Orellana**, Economist

Fears of an escalating international trade dispute rose further in June with the US imposing tariffs on 1 June on a number of countries, including the EU, that had been initially exempted from the 25% US tariff on steel and 10% tariff on aluminium.

In response several countries have announced retaliatory tariffs against a number of US products. As an example, the EU introduced on 22 June tariffs on a range of products including bourbon whiskey, motorcycles, cranberry juice and orange juice, while Mexico's retaliatory tariffs on US products include tariffs on cheese, steel, and pork. In response to these tariffs President Trump has issued warnings of further US tariffs on other products including cars.

So far, the impact of these tariffs has been marginal, however stock markets have been jittery, partially in response to them, with US, Asian and European markets seeing some sharp one day falls on 20 June. The fear is that these initial tariffs may lead to an escalation of the dispute with this interrupting international trade and the global economy. Looking at London, the direct impact of these tariffs is likely to be small, as would be expected given the industrial structure of the capital. However, as can be seen from Figures 1a and 1b, the US is an important export destination for London. Thus in 2016, 18.6% of London's goods exports went to the US, while in 2015 (the last year for which we have data), 22.6% of London's services exports went

Also in this issue

Datastore

The main economic indicators for London are available to download from the London Datastore.

to the US. So, any ramping up of this trade dispute is likely to have worrying implications for the capital's trade with an important trading partner, especially if this is combined with a stoking of a more protectionist sentiment in other major economies.

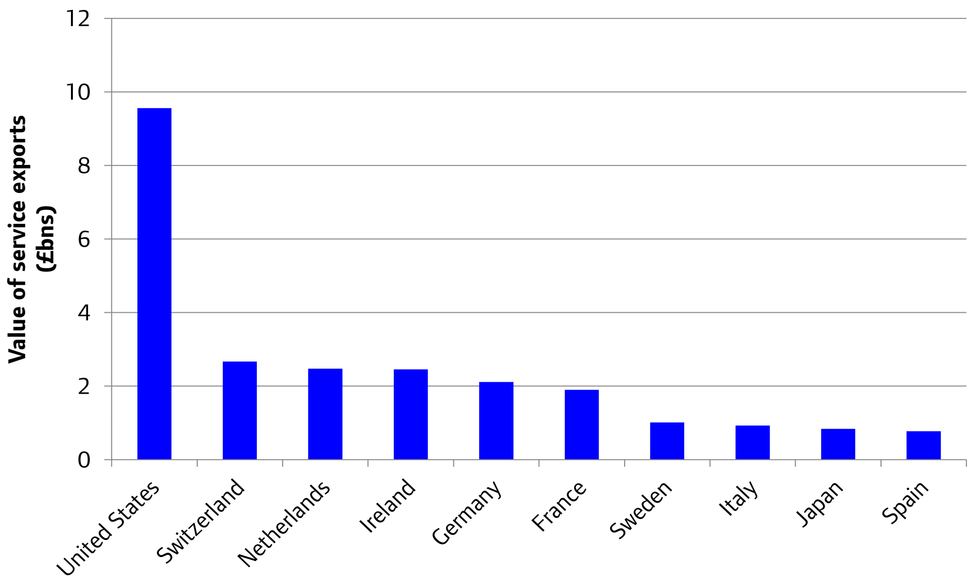


Figure 1a: London's top 10 services export destination in 2015, £ billion

Source: HMRC, Regional Trade Statistics - reproduced from Christie, E. (2017). 'An analysis of London's exports'. Working Paper 91, GLA Economics

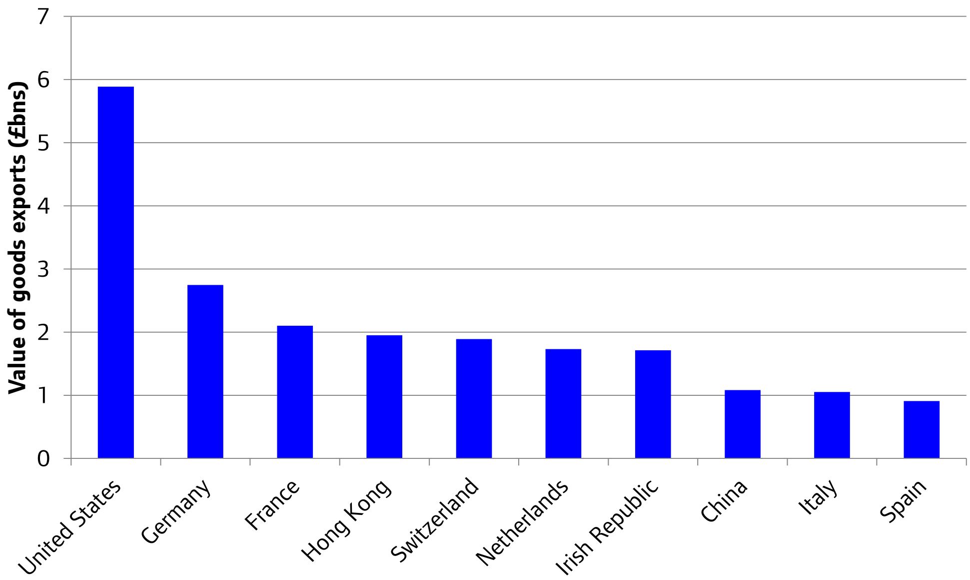


Figure 1b: London's top 10 goods export destination in 2016, £ billion

Source: HMRC, Regional Trade Statistics - reproduced from Christie, E. (2017). 'An analysis of London's exports'. Working Paper 91, GLA Economics

Continued hints on a UK interest rate rise as the US raises rates again

Although the possibility of this trade dispute developing into a trade war acts as a cloud over the international economy there are other signs that the global, and to an extent UK, economy is running more smoothly. As an example, talk of interest rate rises picked up again in the UK after being dampened by the poor UK growth performance seen in Q1 2018. Thus, although the Bank of England's Monetary Policy Committee (MPC) voted to keep the Bank rate on hold at its June meeting the vote was split 6-3, the Bank's chief economist Andrew Haldane being one of the members who voted to raise rates to 0.75%. The last time the MPC was so split in its vote was in June 2017 with a rate rise eventually occurring in November 2017. Commenting on its decision the MPC noted that it believes the dip in Q1 output will "prove temporary". So that "the Committee's best collective judgement remains that, were the economy to develop broadly in line with the May Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to its target at a conventional horizon".

Elsewhere interest rates continue to rise in the US with the Federal Reserve raising the target for its benchmark rate by 0.25% to 1.75%-2%. This is the highest level it has been since 2008. Commenting on the US economy the Fed's Chair, Jerome Powell, said that "the main takeaway is that the economy is doing well". He has noted however that the Fed had received anecdotal reports that trade uncertainties are leading to companies holding off on investments, although they "really don't see it in the numbers". A generally strong US economy was also seen in its unemployment rate in May which fell to 3.8%, down from 3.9%, in the previous month and the lowest rate for 18 years.

UK growth forecasts remain weak

Despite continued speculation of the UK bank rate rising soon, forecasts for the UK economy continue to be weak and in some cases are being downgraded. Thus, in June, the British Chambers of Commerce (BCC) cut its forecast for UK GDP growth in 2018 to 1.3% from a previous forecast of 1.4%, with growth forecast in 2019 downgraded to 1.4% from a previously forecast 1.5%. The BCC cited uncertainty around Brexit, trade wars, interest rate rises and oil prices as acting as a drag on sentiment. It further noted that if its 2018 forecast comes to pass this would "be the weakest calendar year growth since 2009, when the economy was in the throes of the global financial crisis".

The BCC forecast is similar to the latest forecast for the UK from the OECD's Economic Outlook which expects growth of 1.4% in 2018 and 1.3% in 2019. However, the international economy is likely to provide a boost to the UK with the OECD noting on the global economy that "the pace of global expansion over the 2018-19 period is expected to hover near 4%, which is close to the long-term average". Although it did further note that "the Outlook also underlines that significant risks posed by trade tensions, financial market vulnerabilities and rising oil prices loom large, and more needs to be done to secure a strong and resilient medium-term improvement in living standards".

New research on the economic impacts of Brexit

New studies continue to try to shed some light on the potential effects of the UK's exit from the EU on the British economy. Thus, recent analysis by the international consultancy Oliver Wyman argues that under a "no deal" scenario the cost to the UK economy could be £27 billion a year. This would be equivalent to up to £1,000 a year per British household. Under other scenarios the costs range up from £245 per household. It further noted that any subsequent zero-tariff trade with non-EU countries would partially offset this by reducing household costs by between £120-£170 per year. The report also observed that companies that rely on imported goods, like supermarkets, would be most affected by a Brexit where red tape and tariffs increased. Duncan Brewer, Oliver Wyman partner and author of the research, thus observed that "it is possible that supermarkets' profits will be wiped out unless they put prices up for shoppers".

A number of businesses and business organisations have also continued to express concerns around the Brexit process and its impact in June. As an example, the manufacturing body EEF and accountancy advisers BDO, observed that although the 300 polled firms in their latest survey were "cautiously optimistic" they further added that "the continued political uncertainty of Brexit negotiations is weighing on investment". While Airbus in its Brexit risk assessment said that a no deal Brexit would "lead to severe disruption and interruption of [its] UK production". Adding that "this scenario would force Airbus to reconsider its investments in the UK, and its long-term footprint in the country".

London Foreign Direct Investment (FDI) remains high while employment stands at near historic levels

The picture is mixed when looking at the impact of Brexit on FDI into London. So, for instance EY's 2018 UK Attractiveness Report, which was published in June, found that while "FDI projects into the capital rose slightly in 2017 (from 446 in 2016 to 459) – representing half of the UK's overall growth rate - Paris was named by foreign investors as the most attractive city to invest in, overtaking London for the first time since the survey began in 2004". While for the UK as a whole the report noted that it "attracted 6% more Foreign Direct Investment (FDI) projects in 2017 compared to 2016, but in a European market growing at 10%, the UK's market share fell for the second successive year". Adding that "when 450 global investors were asked 'where is the most attractive place to invest in the future', they favoured Germany (1st), with France (2nd) overtaking the UK placed 3rd". They further observed that although FDI was rising in the UK this was at a slower rate than the rest of Europe. Thus they noted that "investor concerns over Brexit led to a decline in Financial Services, Business Services and HQ investments into the UK - against an expanding European market – but were offset by a 22% boost in Digital FDI, compared to a 33% rise across Europe".

London's labour market remains generally firm at the annual level although the quarterly data is a bit more mixed. Thus ONS labour market data for the three-months to April 2018, which was published in June, suggested little change for London on the previous quarter, with employment (and unemployment) still at near record highs (and lows). London's employment rate (i.e. the proportion of London's residents aged 16-64 in employment) in the three months to April 2018 was 74.8%, unchanged on the quarter, but up 1.5 percentage points on the year. The UK's employment rate was slightly higher than London's at 75.6%, up 0.3 percentage points on the quarter and 0.8 percentage points on the year. London's unemployment rate was 5.2% during the three months to April 2018, although this was up 0.2 percentage points on the quarter it is still down 0.8 percentage points on the year. The UK unemployment rate was lower than London's at 4.2% for the same three-month period, down 0.1 percentage points on the quarter and down 0.4 percentage points on the year.

In terms of workforce jobs new data published in June showed that London jobs (i.e. jobs located in London, whether or not taken by London residents) reached 5.9 million, increasing by 1.9% during the first quarter of the year compared to the same quarter in 2017. By comparison, jobs in the UK as a whole grew by 0.5% on the year. Recent jobs growth in London is in line with the historical growth rate of the past 20 years of 1.8% per year on average. The London sectors with the largest jobs growth on the year were Administrative and support services (+26,000 jobs), Information and communication (+25,000 jobs), and Health and social work (+19,000 jobs). However, there were job losses in Professional, scientific and technical activities (-24,000 jobs) and Transport and storage (-12,000 jobs).

Despite the positive data from the ONS, the PMI Employment Index for London in May showed a slowdown in growth in April for the third consecutive month this year. ONS data also shows that earnings growth in the UK remains relatively subdued even though unemployment remains low. Thus, average regular nominal pay grew by 2.8% in the UK between April 2017 and April 2018, down slightly from the 2.9% growth seen in the previous month. Earnings data for London is more lagged, however real median weekly earnings in London in 2017 remained beneath their pre-crisis level (see Figure 2) despite the strong jobs growth seen in the capital in recent years.

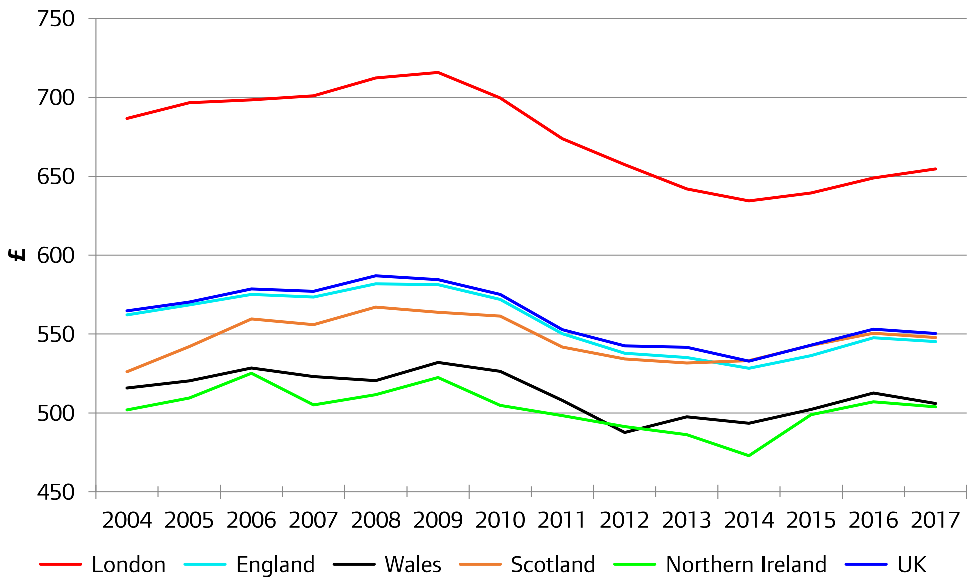


Figure 2: Real median weekly earnings, UK regions and countries residents, 2004-2017 (April of each year in 2017 prices)

Source: Annual Survey of Hours and Earnings

In other London-related news, MPs voted on 25 June to approve the building of a third runway at Heathrow Airport. The runway would be the first full length runway to be built in the London area for 70 years and is forecast to cost £14 billion. When completed it should increase the airport's capacity from around 85.5 million passengers per year to 130 million.

In conclusion, although the UK economy faces a number of uncertainties, indicators for London's economy continue to show a degree of strength. A summary of these indicators is provided in the next section of this publication and turning points within them will continue to be analysed and discussed in London's Economy Today over the coming months.

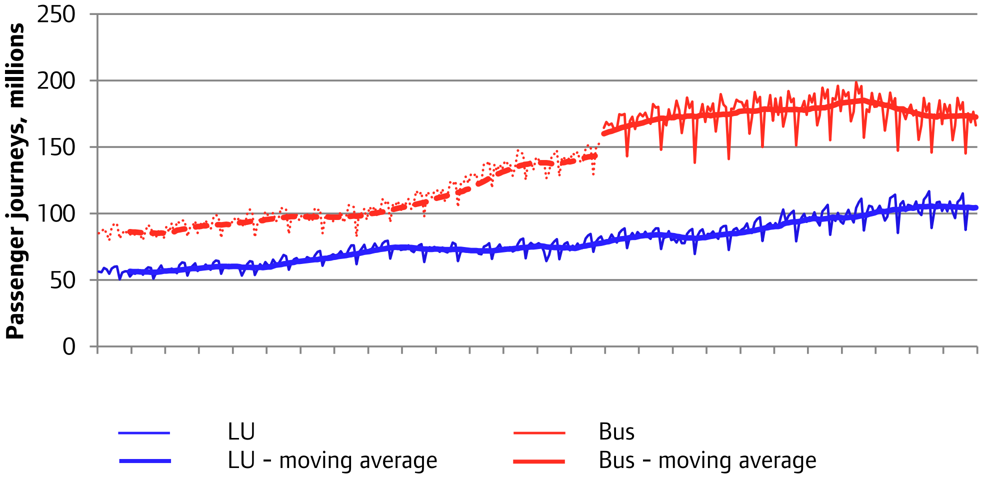
Economic indicators

Decline in TfL passenger journeys in April

- A total of 270.0m passenger journeys were registered between 2 April and 29 April 2018, 11.8m less than the previous period accounting for odd days. This contraction is the result of a decline in both bus and Underground journeys. 103.7m of the total journeys were Underground journeys and 166.3m were bus journeys.
- The 13-period-moving average in the total number of passenger journeys increased slightly from 276.6m to 276.7m.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

Source: Transport for London
Latest release: June 2018, Next release: July 2018

Passenger journeys by mode of transport
(adjusted for odd days)

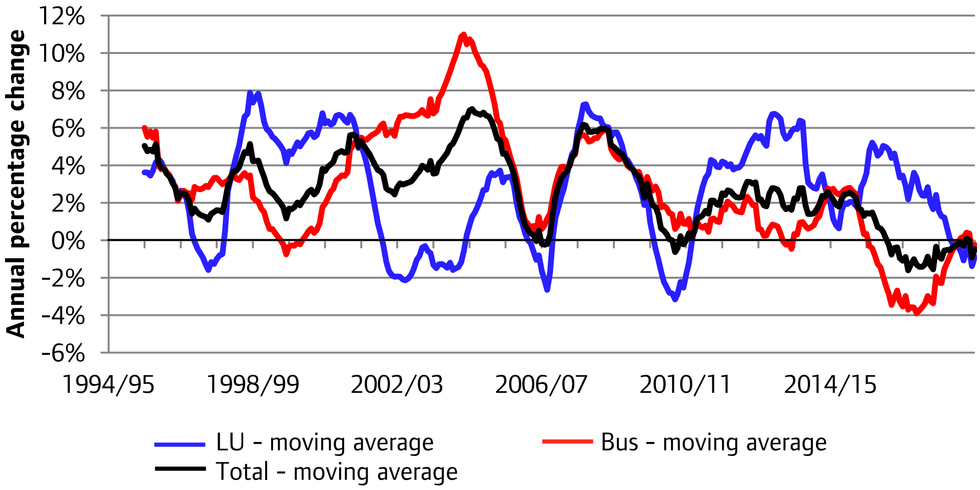


The annual growth rate in passenger journeys remains negative

- The moving average annual growth rate in the total number of passenger journeys increased from -0.9% to -0.5%.
- The moving average annual growth rate of bus journeys increased from -0.6% to -0.2%.
- The moving average of Underground passenger journeys increased from -1.4% to -0.9%.

Source: Transport for London
Latest release: June 2018, Next release: July 2018

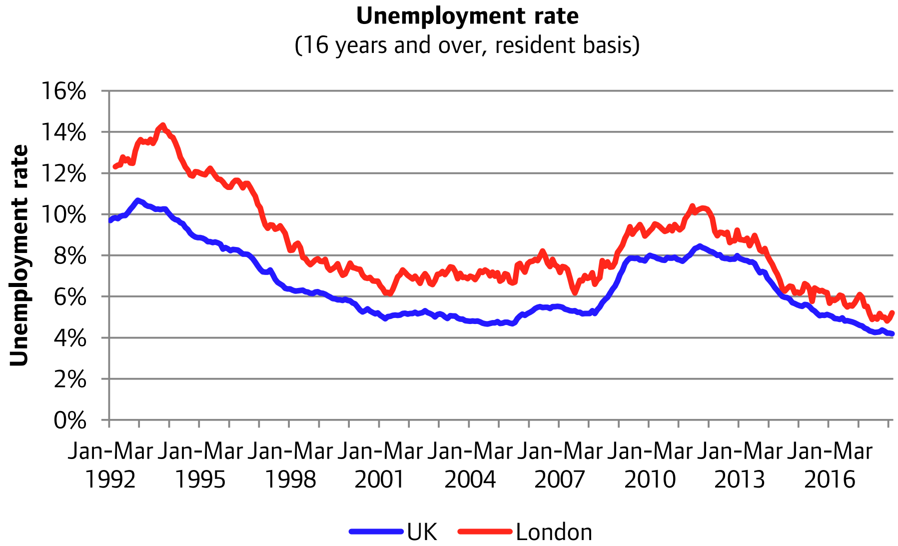
Annual change in passenger journeys by mode of transport
(adjusted for odd days)



London's unemployment increased slightly but remains at near record lows

- 259,611 residents over 16-year-old were unemployed in London for the three-month period February-April 2018.
- The unemployment rate in London increased to 5.2% in the same period from 5.0% in the period November 2017-January 2018 but still shows one of its lowest historical rates since this register of data started in Q1 1992.
- The UK's unemployment rate was at 4.2% in the three-month period February-April 2018, down a little from the 4.3% registered for the period November 2017-January 2018. This rate represents a joint historic low.

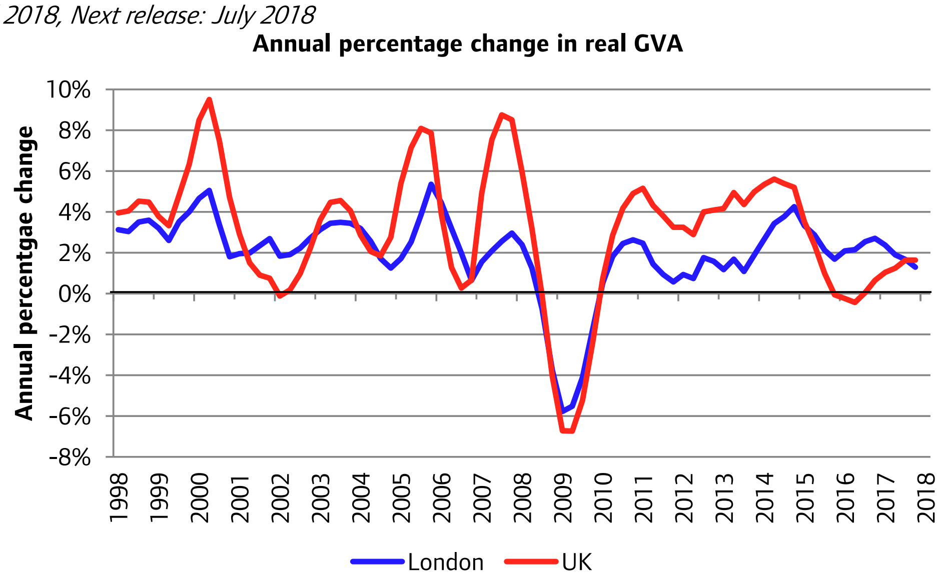
Source: ONS Labour Force Survey
Latest release: June 2018, Next release: July 2018



London's annual output growth remains at 1.6%

- London's annual GVA growth was 1.6% in Q4 2017 - the same rate as in Q3, and the joint highest level since Q2 2015.
- In the UK, the downward trend from Q4 2016 has continued. Output growth was 1.3% annually in Q4 2017 - 0.4 percentage points lower than the previous quarter, and representing the weakest expansion in four years.
- From LET Issue 165 (May 2016), GLA Economics now reports our own GVA estimates for London and ONS data for the UK.

Source: ONS and GLA Economics
Latest release: April 2018, Next release: July 2018

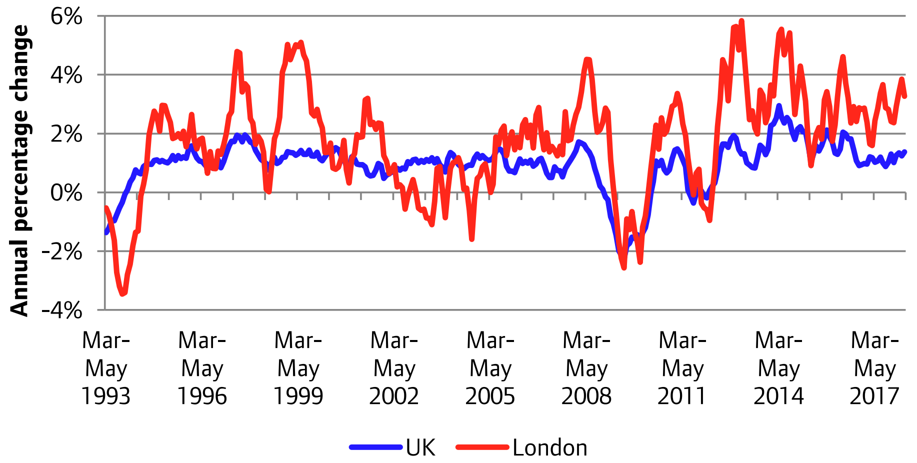


The annual growth rate of employment in London reaches 3.3%

- Almost 4.73m residents over 16 years old were employed in London during the three-month period February-April 2018.
- The rate of annual employment growth for the capital was 3.3% for this period, compared to 2.9% registered for the November 2017-January 2018 period.
- In the February-April 2018 period, the UK grew annually at a rate of 1.4%, 0.1 percentage points up from the previous quarter.

Source: ONS Labour Force Survey
Latest release: June 2018, Next release: July 2018

Annual percentage change in employment
(16 years and over, resident basis)

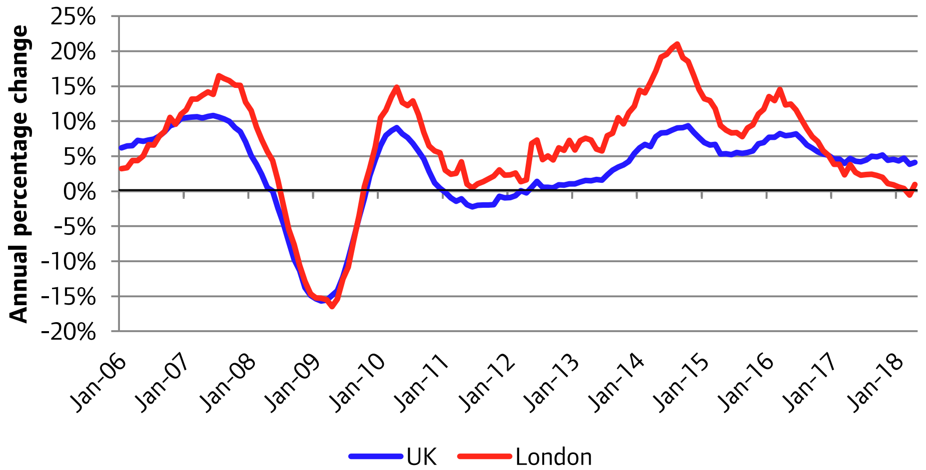


Average house prices in London increase in April after seven months of falling growth rates

- In April, the average house price in London was £483,351 while for the UK the average was £226,274.
- The annual growth rate in average house prices in London was 1.0% in April - up from -0.6% in March which was the most negative rate since September 2009 - reversing the downward trend started in September 2017.
- For the UK, house prices grew 0.2 percentage points faster in April (4.1% year-on-year) compared to March.

Source: Land Registry and ONS
Latest release: June 2018, Next release: July 2018

Annual percentage change in average house prices
(seasonally adjusted)

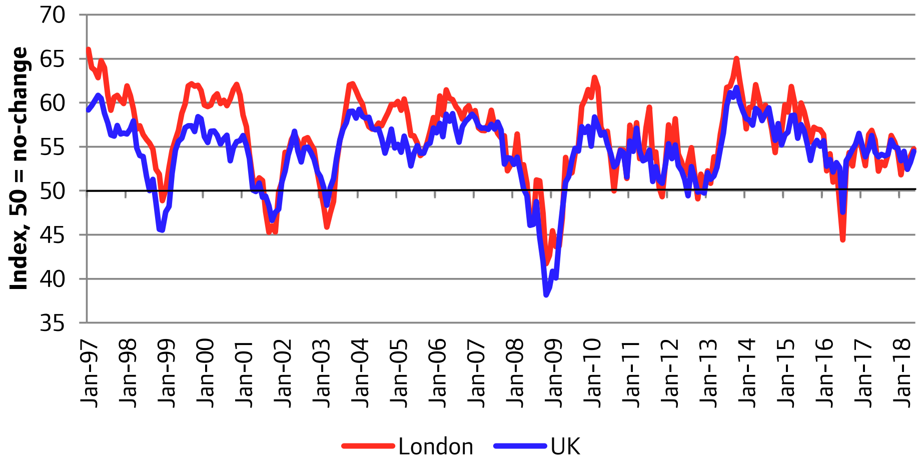


Solid growth in London business activity continues in May

- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in that variable, while readings below indicate a decrease.
- Business activity growth at London private firms was 54.7 in May, reaching the highest figure of the year so far.
- The UK index also increased from 53.2 in April to 54.5 in May.

Source: IHS Markit
Latest release: June 2018, Next release: July 2018

PMI Business Activity Index
(50 indicates no change on previous month)

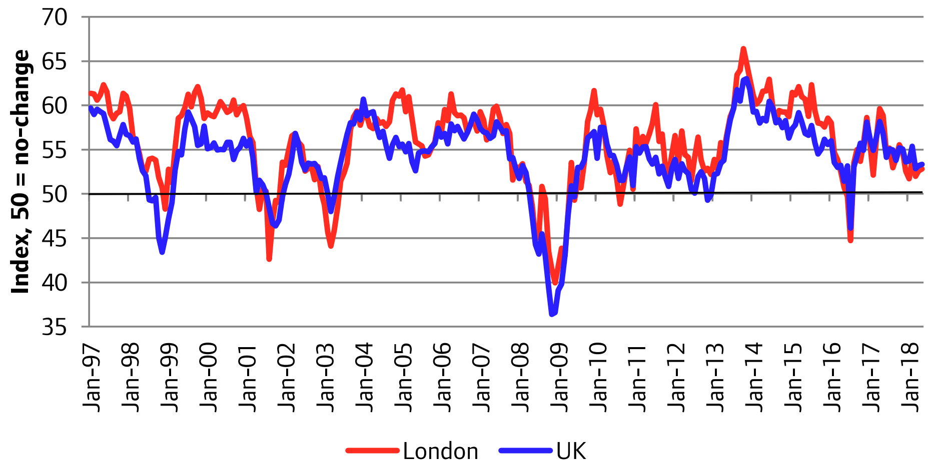


Growth in new business remains stable in London

- The PMI New Business Index was 52.8 in London in May, up slightly from April (52.6).
- Meanwhile, UK firms reported an index of 53.3 in May, also higher than compared to the 53.2 seen in April.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

Source: IHS Markit
Latest release: June 2018, Next release: July 2018

PMI New Business Index
(50 indicates no change on previous month)

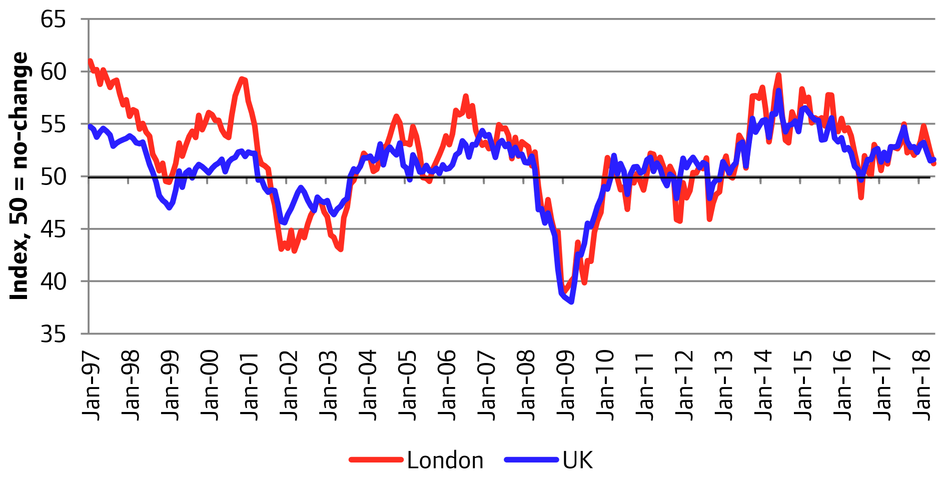


Employment growth in London slows for three consecutive months

- The PMI Employment Index shows the monthly change in employment at private sector firms. Readings above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.
- The Employment Index for London was 51.2 in May, lower than in April (52.3), and the third consecutive decrease in the growth rate this year.
- By contrast, the employment levels increased a little across the UK in May (51.6) compared to the previous month (51.5).

Source: IHS Markit
Latest release: June 2018, Next release: July 2018

PMI Employment Index
(50 indicates no change on previous month)

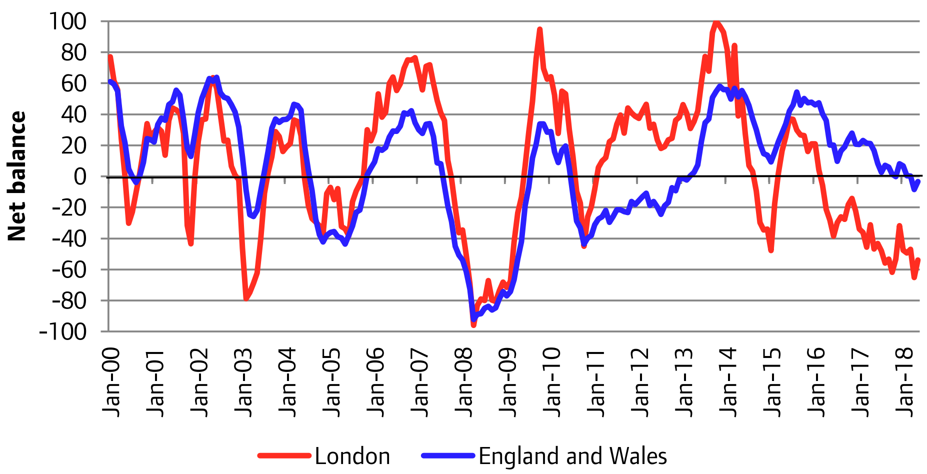


Contraction in London's house prices continues, according to most property surveyors

- During the period March-May 2018, the net balance of property surveyors increased to -54 from -65 but it remains still near the most negative figure in nine years.
- The RICS house prices net balance index for England and Wales increased from -8 to -3 for the same mentioned period.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

Source: Royal Institution of Chartered Surveyors
Latest release: June 2018, Next release: July 2018

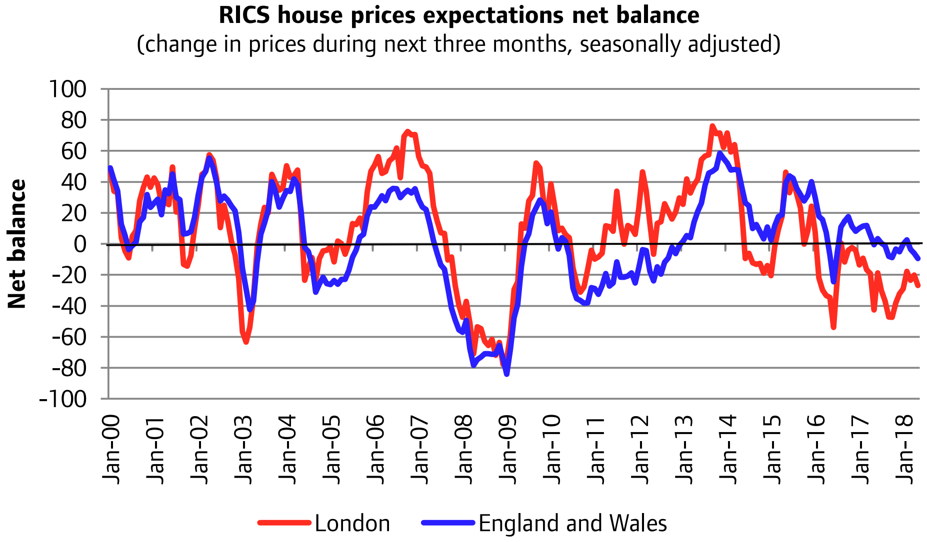
RICS house prices net balance
(change in prices during next three months, seasonally adjusted)



House prices expectations in London fell further in May

- Most surveyors continue to have negative expectations for the next three months for house prices in London. The RICS index was -27 in May, down from -20 in April.
- London remains the region with the most negative expectations for house prices.
- Sentiment in England and Wales was also more negative in May (-9) compared to April (-6).

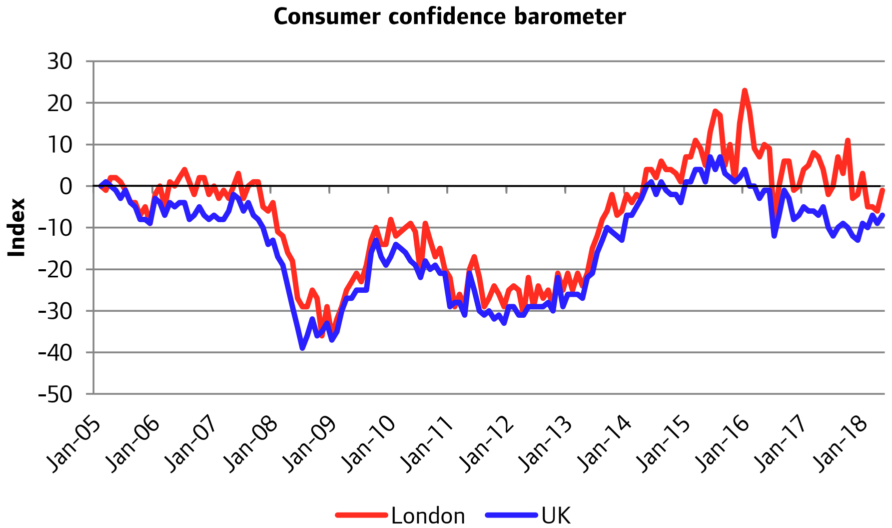
Source: Royal Institution of Chartered Surveyors
Latest release: June 2018, Next release: July 2018



Consumer confidence improves in London in May but remained negative

- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.
- The consumer confidence index in London was -1 in May, up from April (-6) and has remained negative since Feb.
- Sentiment was also less negative for the UK (-7) in May compared to April (-9). The UK index has remained negative since April 2016.

Source: GfK NOP on behalf of the European Commission
Latest release: June 2018, Next release: July 2018



A summary of the Skills Evidence Base 2018

By **Nye Cominetti**, Economist

GLA Economics recently published an Evidence Base[1] about skills in London, to support the Mayor's new skills and adult education strategy[2]. This strategy sets out policies relating to further education and technical skills. The GLA will also soon consult on implementation plans for the newly-devolved Adult Education Budget (AEB), worth around £300m per year. See the Box below for information about the context for the Evidence Base, and the key policies in the Mayor's new strategy.

'Skills' is a broad topic, and the Evidence Base reflects this. It includes analysis of skills demand and supply, inequalities, employer training, and various issues relating to the education and training system. This supplement picks out some of the main findings.

Box: policy context for the Skills Evidence Base

In June the Mayor launched 'Skills for Londoners', a strategy for skills in London. This is the first such strategy. The strategy sets three aims: improving opportunities for Londoners by expanding access to education and skills, meeting the needs of London's economy and employers, and delivering a 'strategic' city-wide technical skills and adult education offer. Its key policy measures are:

- £88m for capital spending on post-16 education
- A new 'Construction Academy',
- Improvements to careers information and advice in London, including a new skills and employment 'knowledge hub'
- Work with businesses – Mayor to create an 'occupational skills board' to advise on meeting London skill needs

One reason for the strategy is that London, along with England's eight Mayoral Combined Authorities, will soon have greater powers relating to skills, with devolution of the Adult Education Budget (AEB). This budget is worth around £300m per year in London, which from 2019/20 will be administered by the GLA. The strategy will be followed by the Skills for Londoners framework, which will consult on implementation plans for the AEB, as well as other skills-related budgets (including European Social Fund money and the new skills capital fund). The framework is expected to include more information on the following priorities:

- The move towards outcomes-based commissioning
- Basic English, maths and digital skills
- English for Speakers of Other Languages
- Support for learners with Special Educational Needs and Disabilities (SEND)

1 GLA Economics (2018) 'Skills strategy for Londoners: Evidence Base'.
2 GLA (2018) 'Skills for Londoners'.

How do we measure skills?

'Skills' is a well-understood term with a clear common sense meaning, and a formal definition is not really necessary[3]. A more interesting question is how skills are measured. Importantly, it is often not possible to 'directly' measure a person's skills, since this requires an assessment of proficiency. Some data sources do this, such as the OECD's Adult Skills Survey, which in 2012 assessed adults' proficiency in numeracy, literacy, and problem solving. However, such sources are limited, and skills are most often measured through a proxy – qualifications. Specifically, a person's highest qualification level (GCSE, A-Level, Degree, etc.) is taken as a proxy for their skill level. However, using qualifications as a proxy has problems. One is that people continue to develop skills after leaving formal education, through experience in and outside work. They are also a narrow measure, missing important work-related skills like communication, management, and so on.

In some ways, the data on skill demand is better. We can use jobs data to measure labour demand, and can break these down by detailed occupations and sectors. Since occupations can be understood in terms of their skill requirements, this tells us about skill demand. Furthermore, we can also use employer surveys, and data on vacancies, to learn about the sectors and occupations in which there are skill shortages.

Why are skills important?

The first two aims in the skills strategy - empowering Londoners to access the education and skills to participate in society and progress in education and in work, and meeting the needs of the London economy and London employers - do a good job of reflecting why skills are important. Briefly, skills are important because they are linked to labour market and social outcomes for individuals, and because, at the level of employers and, in aggregate, the economy, skills are a driver of productivity and output.

The Evidence Base refers to some of the literature showing these relationships. For example, research suggests that improvements in skill levels explain a fifth of productivity gains in the UK in the run up to the recession. In terms of individual outcomes, there are associations between skills and individual outcomes – for example, people with higher level qualifications have greater employment rates, higher earnings, and also better health outcomes. However, these relationships also appear to hold when controlling for outside factors, such as an individual's background. Vocational qualifications and degrees alike have been shown to increase individual earnings compared to similar people with lower level qualifications.

Skills demand and supply

The demand for skills in London has increased substantially in recent decades, both in terms of the total quantity of labour demanded, but also in terms of the skill profile of labour demand. There are currently 5.9 million jobs in London, up from 4.1 million 30 years ago, an increase of 84,000 jobs per year. This jobs growth has been concentrated in the higher-level occupations (in terms of skill requirements and earnings). Between 1994 and 2014 London saw 1.5 million additional jobs in the top three occupation groups (managers, directors and senior officials, and professional and 'associate professional' occupations), compared to 130,000 in all other occupation groups (see Figure A1). This translates into higher demand for people with higher level skills. Between 2004 and 2014, London saw an additional demand for 1.1 million jobs with degree level qualifications, including 340,000 people with higher degrees.

3 If interested, the Evidence Base describes skills as the ability to complete a task, with categorisations referring to the type of task (solving numeric problems, communication, coding, etc.) and to the difficulty of the task (i.e. hard numeric problems versus easy ones).

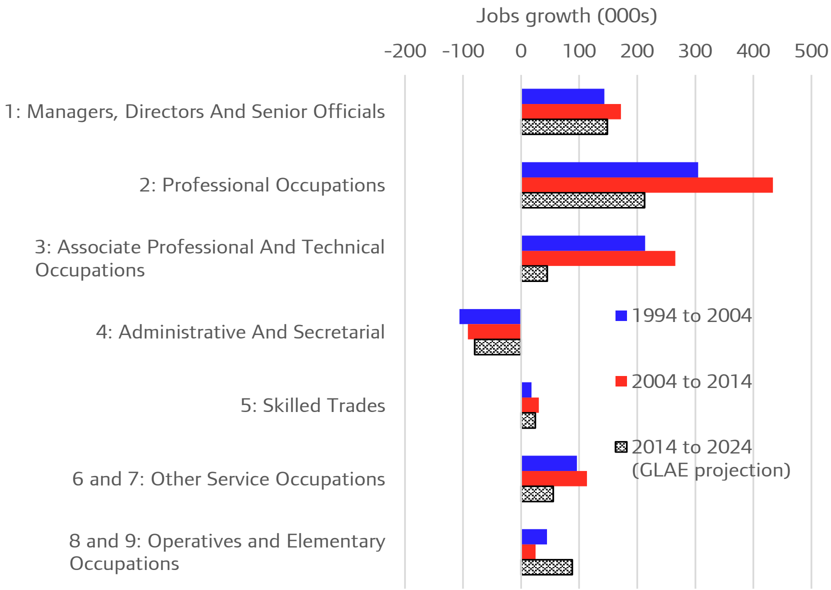


Figure A1: Jobs growth in London (recent and projected) by occupation level

Source: GLA Economics 2016 employment projections

As demand for skills has increased, so has supply, again both in terms of quantity (London's population grew by 1.2 million between 2007 and 2017) and level. The proportion of prime working age London residents (age 25-64) with a degree-level qualification (NVQ Level 4+) increased from 36% in 2004 to 56% in 2017. This compares to 40% in the rest of the UK. Indeed, London is more highly qualified not just than the rest of the UK, but than the rest of Europe. Figure A2 shows all the 'NUTS 2' regions[4] in the European Union, of which there are five in London, and thirty-five in the rest of the UK. London's five regions rank first, second, third, fourth and eighth across the whole of Europe in the proportion of working age residents with tertiary-level education[5].

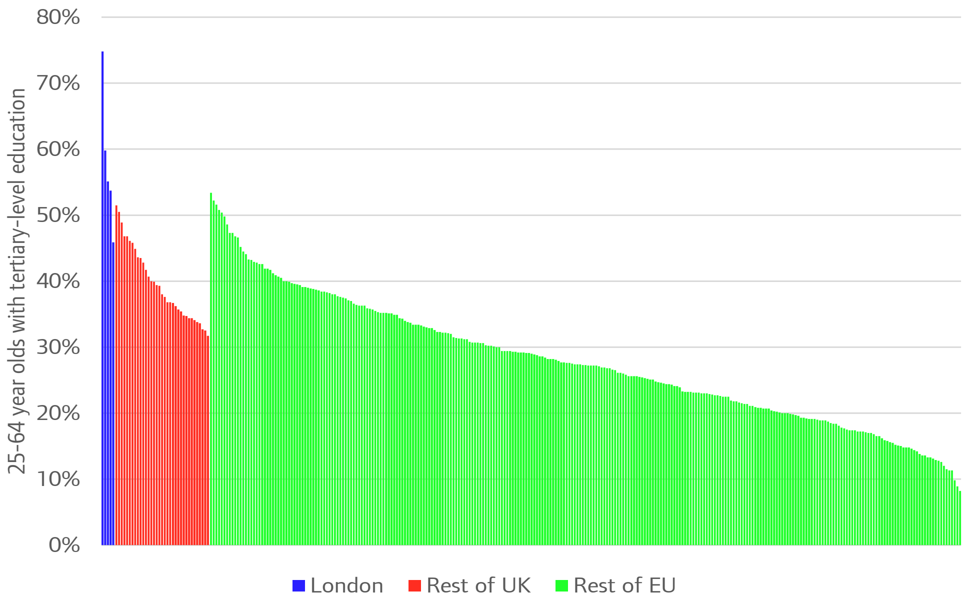


Figure A2: Qualification level of working age residents in 'NUTS 2' areas in Europe, 2016

Source: Eurostat 2016

Are demand and supply in balance?

The headline trends appear to suggest that demand for and supply of skills in London have grown side by side. Furthermore, both are relatively weighted towards higher level skills than elsewhere. But that does not quite tell us whether demand and supply and in balance. Supply could be 'high' compared to elsewhere, as it is, but still not 'high' enough relative to demand. That would lead to a skills shortage, potentially with negative implications for employers and the London economy.

4 NUTS 2 areas are statistical regions, each with between 800,000 and 3 million inhabitants.

5 Note that this paragraph refers to London residents. Of course, commuters also comprise a significant part of London's labour supply. About 1 in 5 jobs in London are filled by commuters.

The best measure we have to answer that question is from the Employer Skills Survey, formerly produced by UKCES, and now by the Department for Education. In 2015 (the latest survey round available) there were 196,000 workers considered by their employers to lack proficiency. There were a further 42,000 vacancies that employers struggled to fill due to the availability of appropriate skills. Taking these together suggests that London faces a skill shortage of around a quarter of a million people – a significant problem. However, due to the size of London's labour market, this shortage amounts to only 5.3% of overall labour demand, suggesting that for the most part demand for skills is met adequately by supply.

Therefore, supply does indeed appear to have kept pace with demand. Compared to many other parts of the UK, where one or both of demand or supply of skills may be 'low', London has been described as being in a 'high skills equilibrium'[6]. It is also worth noting that the 'balance' of demand and supply is not just about supply meeting demand, although this is what employers will be most interested in. The opposite may also matter. In fact, the Employer Skills Survey suggests that the number of people whose skills are at a higher level than required by their job ('over-skilled') is about twice the number whose skills are lacking. Therefore, in London a lack of demand for high level skills may be a more significant problem than a lack of supply, in terms of the balance of supply and demand.

However, although skills demand and supply appear, in aggregate, to be roughly in balance, there may still be particular sectors and occupations facing problems. Two such sectors in London are Construction, and Accommodation and food services because in both around a third of workers are from the European Economic Area, meaning both are vulnerable to changes to the immigration system post-Brexit. Construction is also, strategically, a highly important sector in London given the Mayor's housebuilding commitments, and has received specific attention in the Skills Strategy, with the creation of a new 'Construction Skills Academy'.

Employer training

Another topic covered in the Evidence Base is employers' role in the skill system, and specifically in contributing to the cost of skill acquisition by investing in the skills of their employees. The facts here are stark. In 2015, UK employers spent €220 on training per person employed. This compares to €585 across the EU as a whole. In the highest-investing countries employers spend around six times more than UK employers[7]. It is also notable that investment levels in the UK went down between 2005 and 2015, unlike almost every other EU country. See Figure A3.

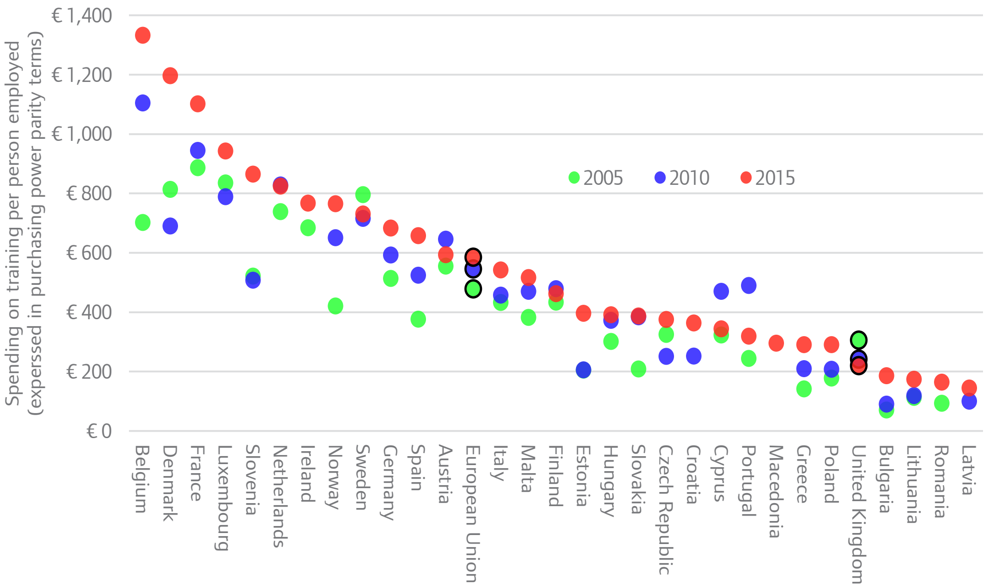


Figure A3: Employer investment in training in European countries, 2005, 2010 and 2015

Source: Eurostat

6 Ann Green research for the OECD: Green (2012) 'Skills for competitiveness: Country Report for United Kingdom'.

7 Note: data is provided in purchasing power parity terms, accounting for differences in prices between countries and over time. This means comparisons between countries are valid.

The Evidence Base used the Labour Force Survey to measure levels of employer investment in London and the rest of the UK. The measures available are the proportion of workers that have recently received training, and the number of hours of training received. This data suggests that employer investment in training in London is similar to the rest of the UK, but that investment has fallen in both. In London the number of training hours per person employed fell by 72% between 1997 and 2017, slightly above the 65% fall in the rest of the UK.

What explains such low (by comparison to the rest of Europe) and falling (compared to two decades ago) employer training? One reason sometimes suggested is that employers are worried about free-riding. Workers can leave their employer after training, meaning the employer loses their investment. However, the evidence does not bear this out. Employers that are asked why they do not train their staff hardly ever mention concern about their staff being 'poached' by other employers. Furthermore, this would not explain falling investment over time[8].

Instead, the better explanation seems to be that training levels are low because employers don't see a need to invest. This is what emerges from the Employer Skills Survey. But this is also implied in the demand and supply data above. If, as the data suggests, London is in a 'high skills equilibrium', with supply meeting demand, then employers have little need to spend resources on training[9]. Given that skill supply has increased in recent decades (with, for example, a greater proportion of people going to university) while employer investment has fallen, this suggests that the cost of skills acquisition have increasingly fallen on the state, and individuals, and less on employers. Concerns over employer investment in skills have come to the fore recently, and are one reason behind the new Apprenticeship Levy, which essentially forces (large) employers to contribute by imposing a tax.

Other issues covered in the Evidence Base

There is not enough space in this supplement to cover all the material in the Evidence Base. For example, there are sections in the Evidence Base on inequalities in skills outcomes (chapter six), and on the challenges facing the education and training system (chapter nine), which have not been touched on here. Please refer to the Evidence Base (which can be found along with our other publications on our publications page) if you are interested in those topics, as well as for greater detail on the issues discussed in this supplement.

8 The UK's flexible labour market means free-riding might explain some of the difference between the UK and other countries. But as mentioned, very few employers cite this as a reason for low investment.

9 As above, it should be noted that these London-wide statistics will mask higher training in some specific employers, sectors and occupations.

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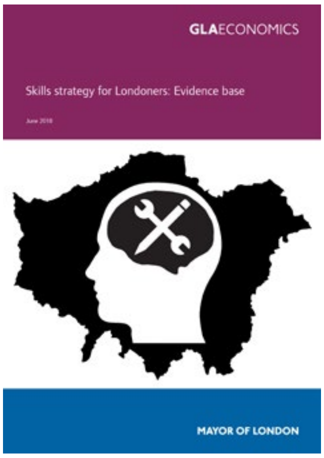

Skills strategy for Londoners, Evidence base

This skills strategy evidence base supports the Mayor's skills strategy, 'Skills for Londoners'. It covers the demand for and supply of skills, inequalities in skills, employer training, and the training and education system.

- Nationally, spending on adult education has fallen since 2010 which is reflected in lower participation. Between 2012/13 and 2016/17 the number of adult Londoners (age 19+) participating in classroom-based further education fell 41%, although the number of adult apprenticeships increased by 9% in this period.

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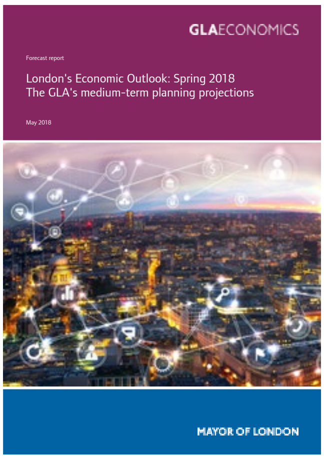
Wider South East experimental labour market projections

These projections are to provide a shared understanding of the technical evidence to inform planning across the Wider South East (East of England, and the South East of England).

- The central projection for the East of England estimates that jobs will grow from 2016 at an annual average rate of 0.92% a year, equivalent to 32,000 jobs, to reach 3.912 million in 2041.
- The central projection for the South East of England estimates that jobs will grow from 2016 at an annual average rate of 0.98% a year, equivalent to 54,000 jobs, to reach 6.194 million in 2041.

Download the full publication.



London's Economic Outlook

Our latest London forecast published in May 2018 suggests that:

- London's Gross Value Added (GVA) growth rate is forecast to be 1.6% in 2018. The growth rate is expected to rise slightly to 1.9% in 2019, before reaching 2.2% in 2020.
- London is forecast to see increases in the number of workforce jobs in 2018, 2019 and 2020.
- London's household income and spending are both forecast to increase over the next three years, albeit at a relatively slow rate.

Download the full publication.

GLAECONOMICS

City Hall
The Queen's Walk
London SE1 2AA

Email glaeconomics@london.gov.uk
Internet www.london.gov.uk

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

MAYOR OF LONDON