GLAECONOMICS

Pay and Inflation Trends in London and the UK since 2010

June 2023

Context

- This note summarises trends in pay in London and the UK since 2010 and compares them to inflation trends. The focus is on median gross weekly earnings for all employees (full- and part-time) working in London. The counterfactual analysis is based on annual pay estimates.

Key Points

- Average pay in London is higher than in any other UK region or country. Across all employee jobs with a place of work in the capital, gross median pay was around £700 a week in April 2022, compared with £533 a week UK-wide.
- However, pay growth in London was relatively weak in the decade before the pandemic. Median weekly pay for employee jobs increased by an average rate of 1.3% a year from 2010-2019, compared to 1.9% a year across the UK.[1]
- These trends are exacerbated when adjusting for inflation, such that real median pay growth was even lower pre-COVID in London than post-COVID.
    - Real median weekly pay for employee jobs in London fell by 0.7% per year on average from 2010-2019, compared to 0.1% UK-wide. Price increases outpaced slow pay growth at the start of the decade (2010-2014), especially for employee jobs in London.[2]

Counterfactual Analysis

- 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.
- 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.
- Illustrative scenario:
    - The median is the value below which 50% of employees fall. The level of median pay is influenced by both changes in pay for individual workers and changes in the workforce.
    - In a scenario where a typical London employee in 2010 saw their gross annual earnings rise in line with median pay growth for 1999-2010 instead of actual median pay trends for 2010-2022, the *cumulative* difference would be around £50,000.

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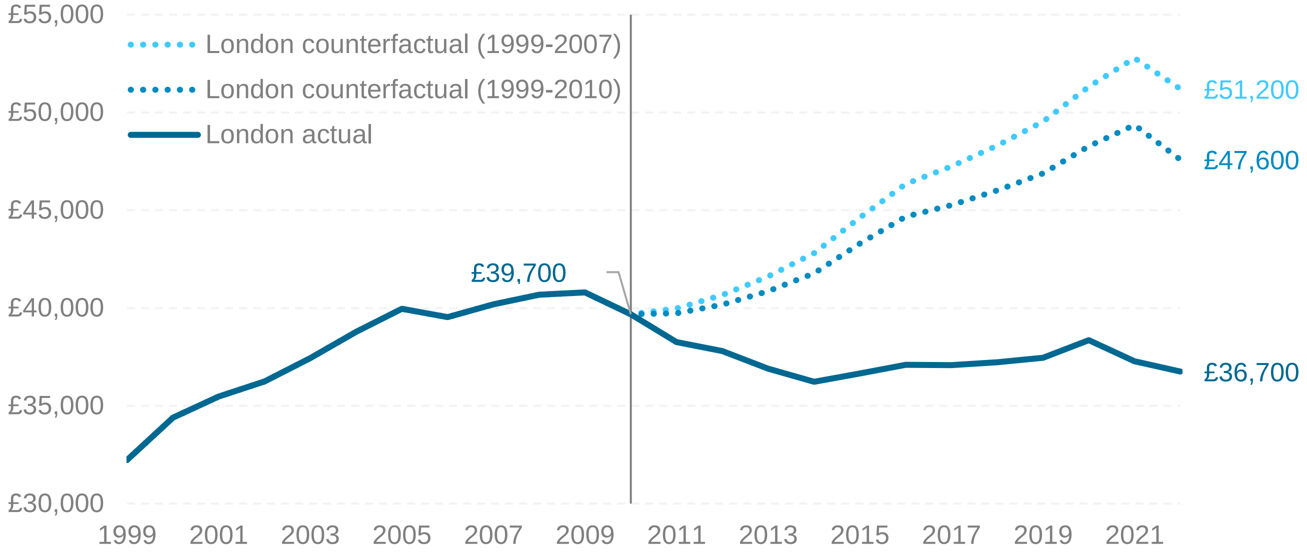
[1] For 1998-2007, gross weekly pay growth averaged around 3.8% a year for all employee jobs in London.

[2] This slowdown also reflects changes in the composition of employee jobs during the recovery for the financial crisis.

Figure 1: Real median gross annual pay in London, 1999-2022

All employee jobs, nominal pay trends adjusted for inflation using actual CPIH (April 2022 prices)



Sources: GLA Economics analysis of ONS Annual Survey of Hours and Earnings (ASHE) and ONS Consumer Prices Index including owner occupiers' housing costs (CPIH).

Additional Considerations

- There has been an upturn in nominal pay growth following the pandemic. Median weekly pay for all employee jobs in London increased by 3.3% a year on average from 2019-2022, just below the UK average of 3.6% a year.
- Nevertheless, this upturn in pay growth (which has been boosted by the furlough scheme) has also been offset by a bigger spike in inflation, with UK inflation on the CPIH measure increasing by 7.8% in the year to April 2022. This means that in real terms (adjusting for inflation):
  - The level of median weekly pay for employee jobs in London fell marginally from 2019-2022 (by around 0.1% a year on average).
  - Median weekly pay for all employee jobs in London was 6.4% below 2010 levels in April 2022, compared to just 0.4% below for the UK (see Figures 2-4).
- The UK does not have an official regional inflation measure, but according to GLA Economics, 'shelf-front' inflation for a partial basket of goods and services in London outpaced the UK average in most years from 2010-2022.[3]

Potential Measures to Increase Wage Growth

- London (and the UK's) low productivity growth since 2008 is a key factor behind the weak growth in nominal incomes over the past decade. Measures to increase nominal wage growth would have to increase the capital's (and the country's) low productivity growth, but while that's a necessary condition it's not sufficient by itself to boost nominal wage growth (see Table 1 for suggestions).

[3] This trend applies across a limited basket of goods and services, including food prices since 2019.

Table 1: Suggestions to address London's (and the UK's) productivity problem and low nominal wage growth

Potential measure	Rationale	Evidence
Increase the supply of affordable housing in London	Housing affordability is undermining London's (and the UK's) ability to attract high-skilled talent. Other things equal, this would undermine London's labour productivity growth.	A study by the Centre for Cities confirmed the link between the housing affordability problem and low productivity growth in London.
Increase government and private-sector spending on research and development (R&D)	Various economic studies demonstrate a strong positive correlation between state spending on R&D and total factor productivity.	OECD data shows that the UK lags most G7 countries in R&D spending as a share of GDP. In 2020, for example, the UK only devoted 1.7% of its GDP on R&D spending, compared to France (2.3%), Germany (3.1%), and the US (3.5%).
Increase transportation and infrastructure investment	Economic theory presents a robust link between public investment in infrastructure (including transportation networks) and total factor productivity (and, by extension, wage growth).	OECD data for 2021 shows that the UK's investment in infrastructure (rail, road, and air) lags that of France, Germany, Japan, and the United States.
Promote innovation clusters in London	London remains the UK's most productive region and a magnet for sectors that demonstrate innovative potential (e.g., AI, life sciences, and urban sustainability). Promoting these sectors could boost productivity in London and the rest of the UK. Levelling-up the UK need not come at the expense of 'levelling-down' economically successful areas of London.	The most recent Budget committed to supporting Investment Zones across the UK, none of which were in London despite the capital's productivity edge. Boosting London's productivity would also enhance the UK's productivity, and by extension, the country's growth and median income.
Reverse chornic underinvestment in business and capital formation	Higher levels of investment in business and of aggregate capital usually mean more output for the same number of hours worked and therefore, higher productivity.	The share of GDP dedicated to capital formation has been low in the UK compared to the US, France, and Germany in most years since the 1960s, and the gap has widened further since the late 2000s.
Reduce regional inequalities	Deep social and economic inequalities within London and across the UK also hamper aggregate productivity growth.	An independent assessment by NIESR demonstrated the need to reduce regional inequalities to boost overall productivity and incomes across the UK.

Figure 2: Annual percentage change in real and nominal median gross weekly earnings for all employees, **London**, 2010 to 2022

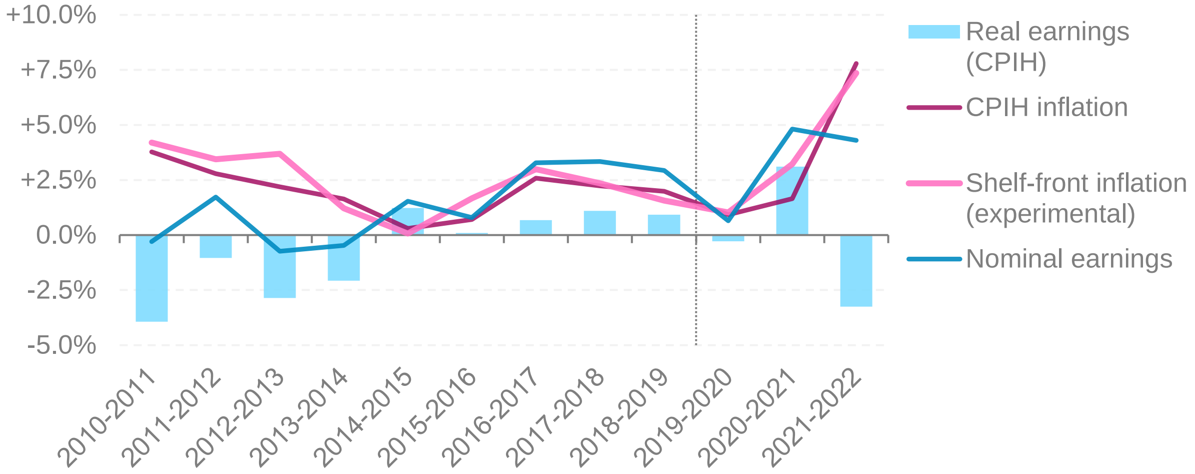


Figure 3: Annual percentage change in real and nominal median gross weekly earnings for all employees, **UK**, 2010 to 2022

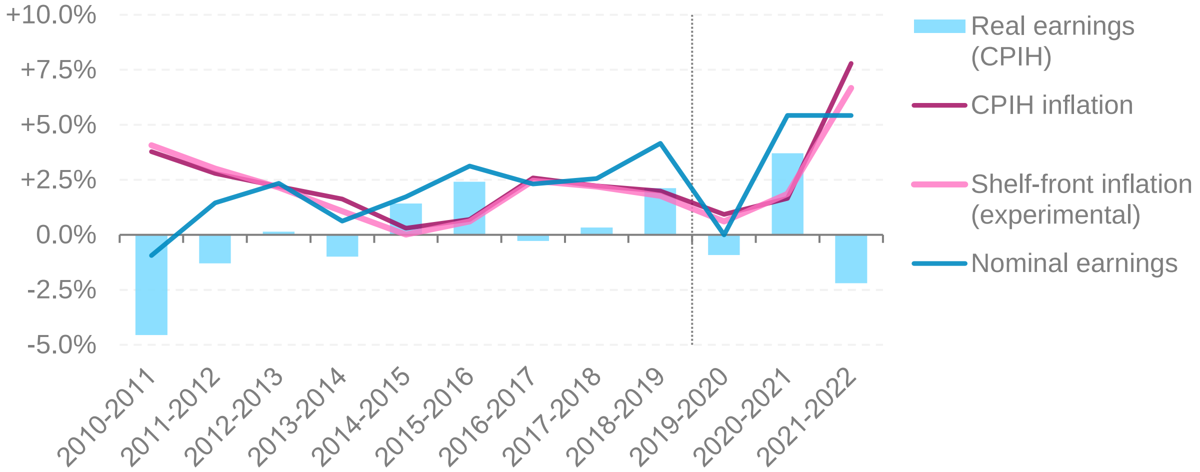
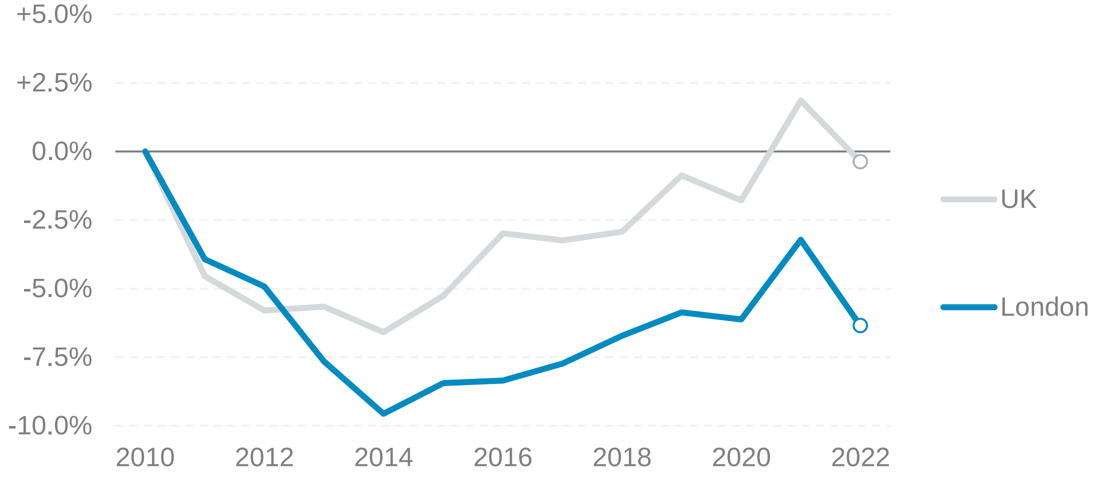


Figure 4: Cumulative percentage change in real median gross weekly earnings for all employees, **London vs. UK**, 2010 to 2022



Sources: GLA Economics analysis of ONS Annual Survey of Hours and Earnings and ONS Consumer Prices Index including owner occupiers' housing costs (CPIH).

Table 2: Annual % change in real and nominal median gross weekly earnings for all employees, London vs. UK (selected periods)

Annual average growth rates, **2010-2019**

	London	UK
1. Nominal pay	1.3%	1.9%
2. CPIH inflation	2.0%	2.0%
3. Real pay (CPIH)	-0.7%	-0.1%
4. Shelf-front inflation*	2.4%	1.9%
5. Shelf-front food inflation*	0.9%	0.9%

Annual average growth rates, **2019-2022**

	London	UK
1. Nominal pay	3.3%	3.6%
2. CPIH inflation	3.5%	3.5%
3. Real pay (CPIH)	-0.1%	0.2%
4. Shelf-front inflation*	3.9%	3.1%
5. Shelf-front food inflation*	3.7%	2.9%

1. Median gross weekly pay for all employee jobs, April
2. UK-wide CPIH inflation data, April
3. Adjusted for UK-wide inflation using CPIH data for April
4. Local headline shelf-front inflation, annual growth using data for April (*experimental)
5. Local shelf-front food inflation, annual growth using data for April (*experimental)

Notes on the data

- The pay estimates in this note do not cover self-employed jobs and come from a survey of UK businesses. There are, moreover, several discontinuities in the ONS ASHE series (in 2004, 2006, 2011 and 2021). The growth rates calculated over these periods are illustrative, not precise figures.
- During the pandemic earnings estimates were affected by compositional changes and the furlough scheme, making interpretation more difficult. Data collection disruption and lower response rates also mean that estimates for 2020 and 2021 are subject to greater uncertainty.
- Real earnings (earnings adjusted for inflation) have been calculated by adjusting nominal (unadjusted) earnings using the Consumer Prices Index including owner occupiers' housing costs (CPIH). The CPIH is the most comprehensive measure of inflation in the UK.

For more information please contact Adam Yousef, GLA Economics
Greater London Authority, City Hall, Kamal Chunchie Way, London E16 1ZE
Tel: 077201 00985 e-mail: adam.yousef@london.gov.uk