

Regional Distribution of Employment and Economic Impacts

Introduction

1. The Airports Commission (AC) has published detailed technical analysis of the wider economic impacts arising from the three options under consideration in its report “Economy: Wider Impacts Assessment”. This includes the Net Present Value (NPV) of the increase in GDP that would arise for the three options for runway capacity that it is currently considering. These are provided for five scenarios and disaggregated between three broad regions – London & South East, Rest of England and Rest of the UK, for a period from 2019 to 2078.
2. The AC also published a second set of figures using a different discount period to calculate the NPV for 60 years from the opening of the runway (in 2025 for LGW 2R and 2026 for LHR NWR). These results are summarised in the following table:

Table 1: Present Value of real GDP impacts, by scenario (£bn, 2014 prices)

	Need	Global Growth	Decline of Europe	Low Cost	Global Fragmentation
LGW 2R	89.0	114.7	62.8	127.4	41.7
LHR NWR	147.2	211.4	111.7	209.6	118.3

Source: Airports Commission, “Economy: Wider Impacts Assessment” Tables 11 & 29

The AC’s Assessment

3. The AC assessed where in the country these benefits would arise based on three broad regions (London & South East; Rest of England; Rest of UK) for the Assessment of Need scenario. This is set out in the following table.

Table 2: Present Value of regional real GDP impacts – Assessment of Need Scenario

	LGW 2R	LHR NWR
Scenario	Need	Need
London & South East	35%	40%
Rest of England	50%	44%
Rest of the UK	15%	16%
TOTAL	100%	100%

Source: Airports Commission, “Economy: Wider Impacts Assessment” Tables 18 & 36

4. The AC’s report states that benefits are concentrated in London and the South East because that is where the runways are located but that significant benefits are distributed across the UK. This is primarily because, “the majority of impacts are national effects and therefore benefit all regions.”
5. It also provides a sectoral breakdown of growth which shows the highest growth is in the manufacturing sector – 44% of net employment growth for LGW 2R and 41% for LHR NWR (under the Assessment of Need scenario) – which is relatively more important in regions outside London and the South East. The following table shows the results for Heathrow and Gatwick for 2050.

Table 3: Comparison of employment impacts by sector in 2050 (000s of jobs)

Sector	LGW 2R	LHR NWR
Agriculture & Mining	0.6	6.3
Manufacturing	24.3	94.9
Utilities	-0.1	-1.6
Construction	1.4	-0.3
Retail & wholesale trade	1.2	-14.8
Air passenger transport	24.1	54.1
Air freight	0.2	0.3
Other freight	-0.6	-2
Other passenger transport	-0.8	-9.1
Accommodation and food services	1.9	15.6
Other services	-1.8	44.9
Health, education and public spending	-0.8	-8.4
Total	49.6	179.8

Source: Airports Commission, “Economy: Wider Impacts Assessment” Tables 23 & 41

6. A much larger share of LGW’s employment growth is in “Air Passenger Transport” – 49% compared to 30% for LHR. The AC report states that this is largely the direct employment that will be located around the airport. LHR therefore has a much larger share of its employment impacts distributed around the country.
7. The AC also reports that the largest gains occur in manufacturing and other services as these are “relatively trade intensive, and are therefore forecast to gain more as a result of improved aviation links leading to increased trade.”

A More Detailed Regional Breakdown

8. In “Taking Britain Further,” Heathrow published an assessment of impacts that is broadly similar to that published by the AC for the 2040 assessment year. This identified a range of direct, indirect, induced and catalytic employment benefits that totalled 123,000. The estimates for direct and indirect jobs were broadly similar at just under 60,000. The AC’s estimate of induced and catalytic jobs is nearly 20,000 higher at 85,000.
9. The majority of the catalytic jobs identified by Heathrow were as a result of trade and Foreign Direct Investment (FDI). Both trade and FDI are forecast to increase as a result of productivity gains and increased business travel that will arise at an expanded Heathrow, as a result of lower fares and greater connectivity and therefore an increase in face to face business meetings. The distribution of benefits is therefore partially related to the origin of business passengers in the UK.
10. The current pattern of business travel is not the sole determinant of the spatial distribution of trade and investment impacts. The future pattern of business travel is likely to be very different at an expanded Heathrow with a greater number of regional connections within the UK. It will also reflect existing patterns of employment in trade and FDI which is not be the same as the origins of business travel. Links into Heathrow are important, but not the only factor that determines how regions will benefit.

11. For example, the Thames Valley is the origin of a high proportion of business travel through Heathrow as a result of the large number of headquarters functions that are based there and these are often accompanied by significant employment in other regions. There are estimated to be 111 foreign owned businesses with HQs in the Thames Valley which own 149 companies elsewhere in the UK employing up to 75,000 workers.¹
12. Employment at foreign-owned companies is also linked to trade. The regions of England outside London and the South East, as well as Scotland, Wales and Northern Ireland get nine times as much employment from FDI in manufacturing as London and the South East do. Scotland, Wales and Northern Ireland do disproportionately well for employment in the R&D, ICT and digital technology sectors (which are more evenly distributed across England), while London and the South East get the vast majority of business services employment.
13. The regional breakdown of jobs related to FDI is therefore based on the amount of employment in each region that is accounted for by foreign-owned companies. Similarly, jobs that are dependent on trade are not necessarily located in the same location as HQ functions and the origin or destination of business travellers – they are located at the manufacturing operations themselves.
14. A regional breakdown of employment can therefore be calculated using existing patterns of employment in the sectors that the AC has identified will grow – in particular manufacturing and other services.
15. As set out in Table 2 above, the AC has published a breakdown of the GDP impacts at three broad regional scales. This has been broken down to specific regions based on each region's share of that broad region's economic activity. It is presented here for the AC's Assessment of Need scenario.²

Table 4: Comparison of PV of real GDP impacts by Region (£bn 2014 prices)

Scenario	Assessment of Need	
	LGW 2R	LHR NWR
London	18.5	35.1
South East	12.4	23.6
London & SE	30.9	58.6
North West	8.6	12.5
East	7.9	11.5
South West	6.9	10.0
West Midlands	6.7	9.7
Yorkshire & Humber	6.2	9.0
East Midlands	5.4	7.8
North East	2.8	4.0
Rest of England	44.5	64.4
Scotland	7.9	14.0
Wales	3.5	6.2
Northern Ireland	2.2	3.9
Rest of UK	13.6	24.1
TOTAL	89.0	147.2

¹ Taking Britain Further p.71

² The Assessment of Need scenario has a lower NPV than the Global Growth scenario which has NPV of £211bn for LHR and £115 for LGW

16. The benefits from LHR NWR are bigger for all regions than from LGW 2R.
17. The following table shows the AC's estimates for employment in 2050 distributed on the basis of how GDP is broken down in Table 4. GDP has been converted to GDP per worker for each region and sector to estimate each region's share of jobs and then controlled to the AC's total employment for the Assessment of Need scenario in 2050.

Table 5: Comparison of employment impacts by region in 2050 (jobs)

	LGW 2R	LHR NWR
London	9,300	38,400
South East	8,000	33,200
London & SE	17,200	71,600
North West	4,800	15,300
East	4,100	12,900
South West	3,900	12,300
West Midlands	3,800	12,000
Yorkshire & Humber	3,500	11,200
East Midlands	3,100	9,800
North East	1,600	5,100
Rest of England	24,800	78,600
Scotland	4,100	16,100
Wales	2,200	8,400
Northern Ireland	1,300	5,000
Rest of UK	7,600	29,500
TOTAL	49,600	179,800

18. Again, this shows that the regional employment generated by LHR is significantly greater than that generated by LGW.