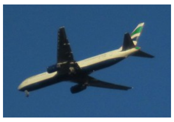

The Local Economy
Heathrow Expansion Factsheet 6

What impact would a new runway at Heathrow have on the Local Economy?

The local economy will grow whether or not Heathrow expands. Expected Heathrow passenger growth even without an additional runway is as much as 30%. So any decrease in the number of jobs would be due to increased productivity and would happen over many years.

With an additional runway, the Airports Commission recognises that providing the number of houses and other infrastructure required for additional employees could be challenging. It has not yet been shown how sufficient housing could be provided to support Heathrow expansion.

What's the issue?

1. Heathrow airport provides employment for local people either directly for the airport, on- or off-site, in businesses supplying the airport or through the spending power of people employed in these sectors. Employment numbers are driven by the number of passengers using the airport and by business productivity. There is likely to be employment in the area due to so called agglomeration and catalytic effects. Technically oriented businesses, for example, often tend to locate near each other and near an airport where distribution of products is by air. While the Airports Commission has examined employment of this nature it is difficult to assess the incremental impact of Heathrow expansion reliably.
2. With expansion of Heathrow there would be new jobs. Without expansion, the impact of productivity may result in a decline in jobs, depending on the assumptions made. The Airports Commission consider that this would mean that as people leave work, through retirement or moving on, the jobs would not be replaced. Heathrow is expected to continue expanding the number of passengers by as much as 30% even without an additional runway. So any decrease in the number of jobs due to productivity is likely to be over many years.
3. Most (75%) of the local jobs at Heathrow are relatively low skill and low pay [1]. Jobs may become higher skilled and better paid, with appropriate training, with or without Heathrow expansion.
4. Expansion at Heathrow would divert aviation capacity and economic activity away from the rest of the UK into the over-heated south-east (see *Fact Sheet 1: the UK Economy*). Growth would put additional pressure on housing and infrastructures in the south-east. Because of the location of Heathrow, this may put pressure on preserving the Green Belt.

Employment

5. The table below summarises key Heathrow related employment statistics presented by the Airports Commission. "Local" refers to local authorities in the immediate vicinity of Heathrow, i.e. Hillingdon, Hounslow, Spelthorne, Slough and Ealing. The table shows:
    a. direct employment where activity is directly related to Heathrow and is either on- or off-site;
    b. indirect employment in firms that supply the goods and services to businesses located at the airport, and
    c. induced employment where employment is supported by the expenditure of those employees in the previous categories.

6. The key assumptions on which the table is based are as follows:
   a. Figures are based on the Heathrow North West Runway (Heathrow NWR) option. The Heathrow Extended Northern Runway (Heathrow ENR) option does not appear to be significantly different in employment terms;
   b. The direct employment forecasts are proportional to the number of passengers. In the "No expansion" case, passenger numbers rise from 70 million in 2011 to between 90 million and 100 million in 2050, depending on the scenario. In the Expansion case, they rise to between 132 million and 149 million in 2050;
   c. The Commission has used the passenger numbers from its 10 carbon capped and carbon traded scenarios and combined these with two productivity scenarios of 1.9% and 1% per annum. The 20 sets of results have been prepared for 2030 and 2050. The maximum/minimum results are taken from these 20 scenarios. The productivity factor is assumed to start at 829 passengers per employee in 2011 and in 2030 to rise to between 1,000 and 1,200 and in 2050 to between 1,200 and 1,700;
   d. The indirect and induced employment figures are calculated by applying "multipliers" to the direct employment figures. The multipliers used are 0.62 in 2030 and 0.63 in 2050 for indirect employment and 1.10 in 2030 and 1.07 in 2050 for induced employment.

Heathrow related Employment 2010 and 2050 (Full Time Equivalent persons, thousands)					
	Direct	Indirect	Induced	Total	Gross value added
2010 Actual					GVA
Gross Value Added £bn	£3.6bn	£2.4bn	£3.6bn	£9.6bn	£bn
Local	84	11	19	114	£5.3bn
London		10	13	23	£1.7bn
Rest of UK		23	46	69	£2.6bn
Total 2010	84	44	78	206	£9.6bn
2050 Forecast					
No expansion - Min	53	33	56	142	
- Max	82	52	88	221	
Expansion NWR - Min	76	48	82	206	
- Max	122	77	130	329	

Source: 2010 figures: Airports Commission Local Economy Literature review page 53 ("Optimal Economics – Heathrow related Employment 2011") [1].
2050 figures: Airport Commission Local Economy Impacts: Assessment Tables 3, 13, 14, 21 and 22.

7. In broad terms passenger numbers increase between 2010 and 2050 by around 135% in the "No" expansion case and by around 200% in the expansion case. But when converting these into direct employment, productivity reduces the increased numbers by about 54% in the high productivity case and by about 32% in the low productivity case. For example: In the "No" expansion high productivity case direct employment increases between 2011 and 2050 from 84,000 to 114,000 before productivity but this is reduced to 53,000 after productivity.

8. The table shows that by 2050 and without expansion total employment numbers of 206,000 in 2010 could increase marginally to 221,000 or fall to 142,000 or anywhere in between, depending on the forecast scenario (carbon capped or carbon traded) and productivity. Similarly, local direct employment of 84,000 could fall marginally to 82,000, or more significantly to 53,000. With expansion there could be significant growth in jobs both nationally and locally compared to 2010 and still more so when compared to the "No" expansion case. Total employment could rise to between 206,000 and 329,000, depending on the forecast scenario and productivity. Direct employment could be between 76,000 and 122,000.

9. Fact Sheet 1 shows that expansion of Heathrow re-distributes passengers and hence jobs to Heathrow from other airports and in particular from the rest of the UK outside the south-east. The passenger/employee factor for direct employees and the multipliers for indirect and induced employment vary from one airport to the next, in part due to the service provided - ranging between low cost direct flights and long-haul legacy transfer flights. As examined in Fact Sheet 1, the UK market shares of different types of passenger demand remain relatively unchanged, whether or not Heathrow is expanded. It seems possible and perhaps likely that the jobs and Gross Value Added (GVA) created by expanding Heathrow are more than matched by curtailment of similar activities and hence jobs and GVA growth elsewhere in the UK.

10. Questions remain over the incremental numbers of jobs created by expansion. If people, do not spend their discretionary money on leisure travel they are likely to find some alternative use. Attributing the absolute benefit to Heathrow may overstate the benefit of expansion as a result.

11. A large part of Heathrow's business is non-aeronautical retail. It is at least questionable whether increased noise and pollution can be justified based in part on the additional retail accompanying aeronautical expansion.

Supply of employees

12. The following table shows where Heathrow related direct on-airport employees reside and potentially the impact of either decreasing or increasing employee numbers. London is growing rapidly (37% between 2011 and 2050 according to the London Plan) [2] so this snapshot is likely to change over the years being considered.

Direct on-airport employment data Heathrow			
	Numbers of employees	Share of local authority employment (%)	Local Authority unemployment rate (2013) (%)
Hounslow	10,760	8.3	7.3
Ealing	5,760	3.7	9.9
Slough	4,090	6.1	8.2
Hillingdon	8,960	6.7	7.7
Spelthorne	3,920	7.8	4.9
Total of five local authorities	33,490	n/a	n/a
Other Areas	39,940	n/a	n/a
Total	73,430	n/a	9.6
		UK average	6.4

Source: Airports Commission Local Economy Impacts: Assessment Table 15 page 29 [1]

13. Whether jobs are created or decreased it is clear the changes may be spread across up to 14 boroughs and over 15 or more years. For example, the largest potential decrease is 31,000 direct jobs over 35 years to 2050 based on the current 84,000 direct jobs (including off-airport jobs). The Airports Commission says this does not imply current employees will lose their jobs but rather that over the next 15 years as workers retire or move on they will not be replaced at the same rate. Productivity improvements are key to driving forward the economy and they provide the basis for growth in real wages. Heathrow is no different in this respect.

14. The Airports Commission comments on improved surface access increasing the area in which Heathrow employees can readily access the airport and hence the size of the pool of potential employees. However, Fact Sheet 7 provides evidence, based on Transport for London calculations, that the Commission may have significantly under-estimated the investment needed to enhance surface access.

Skills

15. In a study by Optimal Economics (*Airports Commission Local Economy Impacts: Assessment page 28*), Heathrow employee skills were found to be mainly on the lower spectrum with 75% of those employed in skills sector level 1 and 2 [1]. This breakdown is also reflected in the salary distribution of on-site employees, with predominantly low paid workers. The local authorities surrounding Heathrow, apart from Hillingdon, have a high percentage of non-skilled workers compared to the national average. Air transport typically has a requirement for lower skills. There are relatively high unemployment rates in Hillingdon and Ealing. The Airports Commission in its consultation assumed that the skills mix would not change materially although there might be some increase in the workforce efficiency because of productivity gains.

16. If Heathrow were to achieve the productivity gains predicted by the Airports Commission it is not unreasonable to assume that employees should benefit by the jobs becoming more skilled and better paid. This could benefit the local boroughs and the unemployed with appropriate training. This would apply whether or not Heathrow is expanded.

Housing

17. The following table shows the housing needs with Heathrow expansion as projected by the Airports Commission (Local Economy Impacts: Assessment Table 4 page 8) [1]. The Commission recognises that providing the number of houses required could be challenging. It also notes that infrastructure such as schools would be required as well. It is not clear from the Airports Commission consultation that sufficient housing can be provided to support Heathrow expansion.

Number of additional households for additional employees – Heathrow NWR expansion		
	Low	High
Direct employees	11,000	26,000
Total employees (direct, indirect and induced)	29,800	70,800

Land

18. Heathrow is in London's greenbelt and it is not clear from the Airports Commission consultation that there is sufficient land to support the new housing and commercial demand that would arise with Heathrow expansion. Already the land values are high, partly due to the generally high demand around London but particularly because of the presence of Heathrow.

References

[1] Airports Commission: Additional airport capacity: local economy impact analysis (11 November 2014)
https://www.gov.uk/government/publications/additional-airport-capacity-local-economy-impact-analysis

[2] GLA Intelligence: Population And Employment Projections to Support the London Infrastructure Plan 2050 (November 2013)
https://www.london.gov.uk/file/18859/