GLAECONOMICS

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Omicron variant leads to the introduction of targeted measures

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In the run up to the Christmas holidays the new Omicron variant of COVID-19 was discovered in Southern Africa. Cases have quickly been reported in Europe, including the UK, and around the world, with examples of community transmission being reported. At the time of writing preliminary data on the variant indicates that it spreads more rapidly than the Delta variant and may be the dominant variant in the capital.

In response to Omicron, the vaccine booster programme was rolled out to all adults in England. Meanwhile, following the discovery of the Omicron variant some restrictions were reintroduced such as the travel red list, which was initially reapplied to travellers from some Southern African countries. This list was gradually expanded before being removed with the evidence of widespread transmission of the variant in the UK. Mandatory mask wearing in shops and public transport was also reintroduced in England. This was then extended on 8 December to most public enclosed spaces like theatres and shops (but not to pubs and restaurants), while workers were advised to work from home from 13 December if possible. And nightclubs, indoor unseated venues of more than 500 people, outdoor unseated venues of more than 4,000 people, and any venue with more than 10,000 people are required from 15 December to have people show their vaccination status or negative test result on the NHS Covid Pass.

Also in this issue

Datastore

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

In response to these measures representatives for sectors that have already been heavily hit by the pandemic said that these measures would hurt them further. For example, Craig Beaumont, chief of external affairs at the Federation of Small Businesses, said "It's a double whammy. Christmas parties are already being cancelled, but this could turn the lights out for many struggling hospitality businesses". These measures come at an awkward time for the hospitality industry with the period before Christmas being the time bars and restaurants make most of their profits. Even before the announcement on 8 December footfall in London's hospitality sector had not yet returned to pre-pandemic levels (Figure 1).

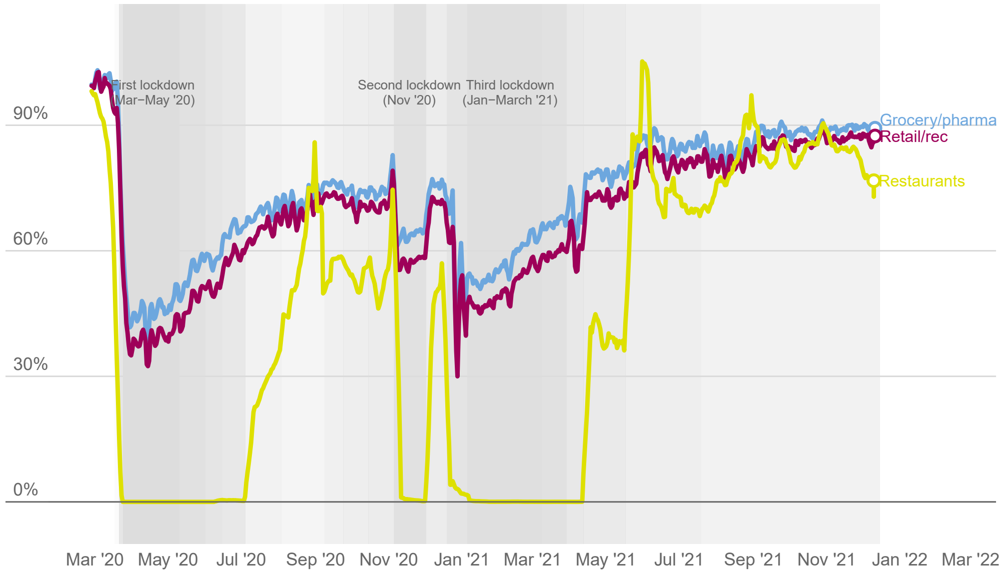


Figure 1: Individual personal activities in London, March 2020 – December 2021, relative to pre-COVID-19 baseline

Source: Grocery and retail metrics from Google Mobility, social venues (bars, event spaces etc) from Purple public Wifi and restaurant bookings from OpenTable

It is difficult to predict how the emerging news on the Omicron variant will playout in the coming weeks. Still, if no new lockdown is imposed London's economy should see continued growth, although at a slower rate than initially expected. However, a large peak in infections leading to a larger number of workers self-isolating could have temporary disruptive impacts. Further, as noted, although the aggregate prospects for the economy remain generally positive this does not apply to all sectors of the economy, with Arts and entertainment, Accommodation and food services, and Transportation and storage likely to face renewed challenges.

London's labour market shows continued recovery

Before the news about Omicron, ONS data on London's labour market remained positive showing a continued improvement in employment in the three months to October. The employment rate was estimated to stand at 75.4% between August and October 2021, up 0.5 percentage points (pp) on the previous quarter and up 0.6pp from a year earlier. This rate was marginally below the 75.5% seen for the UK as a whole. London's unemployment rate was estimated at 5.4% in the three months to October, a decrease of 0.6pp on the previous quarter and of 1.2pp from a year earlier. However, the capital's unemployment rate was still significantly higher than the 4.2% seen for the UK as a whole. More timely data from the count of payrolled employees from HMRC's Pay As You Earn dataset shows that there were around 4.2 million payrolled employees living in London in November 2021, an increase of around 55,400 or 1.4% on the previous month. This was also an increase of 241,000 or 6.2% on the previous year and compares to a UK average increase of 4.8%. Relative to pre-pandemic levels (February 2020), the number of payrolled employees in London is up by 2,390 or 0.1%. This compares to an increase of 1.5% across the UK on average. However, the number of payrolled employees is still below pre-pandemic levels in 16 out of 33 of London's local authorities.

Uncertainty is high for the global economy

The Organisation for Economic Cooperation and Development (OECD) has warned that the Omicron variant adds to high global economic uncertainty. Thus, when their latest Economic Outlook forecast was published their chief economist, Laurence Boone, said that the variant was "adding to the already high level of uncertainty and that could be a threat to the recovery, delaying a return to normality or something even worse". In terms of the UK the OECD expected strong growth of 6.9% in 2021, slowing to 4.7% in 2022 and 2.1% in 2023, although this forecast was produced before the discovery of the Omicron variant. Inflation was expected in the forecast to peak at 4.9% in the first half of 2022.

The UK is not expected to return to pre-pandemic levels of output until the beginning of 2022, while output in most OECD countries is now close to or above pre-pandemic levels according to the OECD. That said global GDP in mid-2021 was still 3½% lower than projected before the pandemic. This forgone growth has not been distributed equally. The loss has been proportionately greater for middle-income emerging-market economies as a group, and greatest for low-income developing countries. Growth within countries has also been uneven. Contact-intensive sectors and lower-income households have been particularly hard hit, as has been the case in London, contributing to the incomplete recovery in labour markets. The OECD is expecting world growth in 2021, 2022 and 2023 of 5.6%, 4.5% and 3.2% respectively.

Elsewhere, concerns about the heavily indebted Chinese property developer Evergrande continue to mount with the credit ratings agency Fitch downgrading its debt to being in "restricted default". With these worries affecting other firms in China's real estate sector there are growing concerns about the impact this may have on China's economy.

Inflation continues to increase and the Bank of England raises interest rates to address this

Inflationary pressures remain strong in the UK economy as consumer prices, and manufacturing input and producer output price inflation continue to rise (Figure 2). Consumer price inflation rose to 5.1% in November up from 4.2% in October, and 3.1% in September – with the increase being broadly based across goods and services, and reflecting underlying drivers such as supply chain shortages and rising energy prices. In a tightening labour market, there is also some evidence that wage inflation is extending beyond occupations and sectors where there were specific shortages, such as truck drivers. The inflation rate by all three measures is higher than the rates reached due to the sterling exchange rate depreciation after the EU Referendum. Then the Bank of England (BoE) considered that increase to be a one-off which would pass through the statistics after some time, and so did not increase interest rates. It is increasingly clear that this approach will not work during the current crisis, despite many of the pressures being transitory, and the markets expected an interest rate increase in November which did not happen. The International Monetary Fund (IMF) has argued for an immediate increase in interest rates as it felt that the risks of undermining confidence were offset by the benefits from restraining demand and allowing inflation to become even more persistent – it estimates that inflation will rise to 5.5% in the Spring of 2022, and will only return to the BoE 2% target by early 2024. Taking account of rising inflation the BoE voted to raise interest rates by 0.15pp to 0.25% on 16 December, reversing the second cut in interest rates that occurred in March 2020 in response to the pandemic. This rise was the first increase in rates since August 2018.

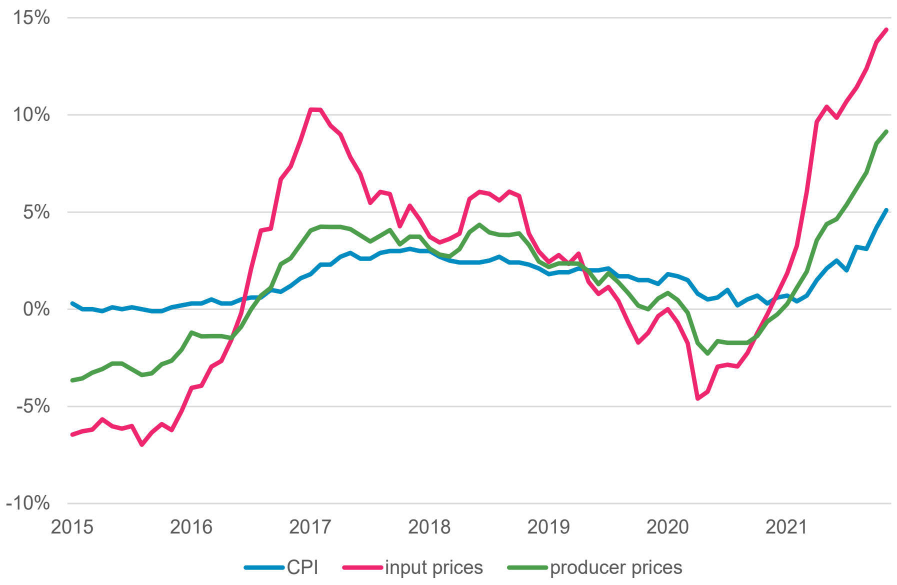


Figure 2: Annual consumer price, and manufacturing input and producer output price inflation, January 2015 – November 2021

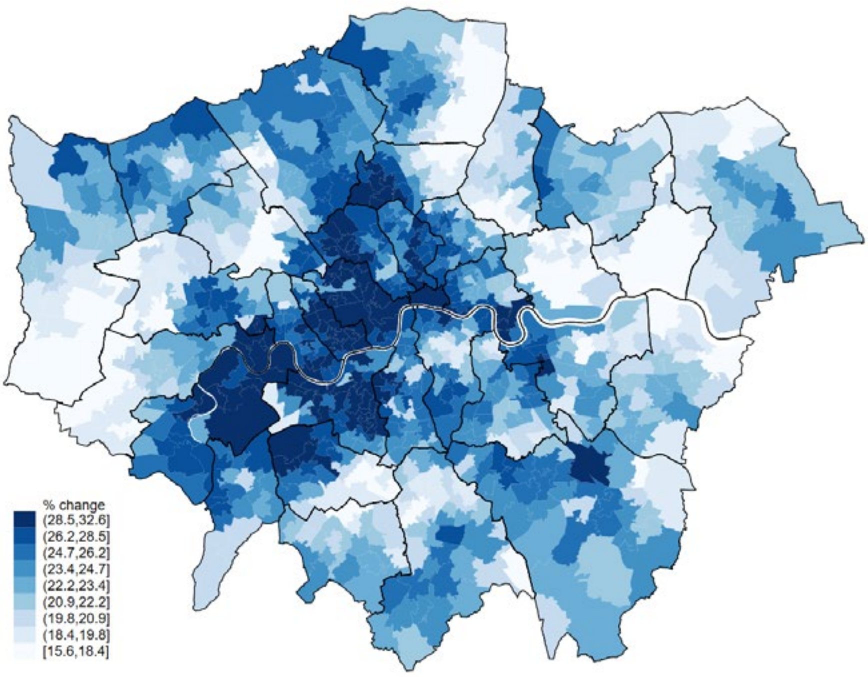
Source: ONS

Customs controls for imports from Europe due to come into effect

Outside of the continuing fallout from the pandemic, changes to the UK trading relationship with Europe due to Brexit continue to pose a further, ongoing challenge to the UK economy. These are set to accelerate in 2022 with the imposition of full customs controls on imports from the EU on 1 January 2022, although some controls, such as certificates and physical checks on agri-foods and plant imports, are postponed until 1 July. These controls where initially due to come into effect on 1 October 2021 but were delayed in part due to the pandemic. The Federation of Small Businesses has warned that a survey they conducted found that only one in four small importing firms were ready for these changes, with a third of surveyed firms being unaware of them until surveyed. The OECD has noted that "increased border costs following the exit from the EU Single Market are weighing on imports and exports", even before these changes had taken effect.

Zoomshock – the estimated shift to the suburbs of London's economic activity

Previous LET editorials have reported on the shift in demand for retail and hospitality services from central London to outer areas and outside London with remote working during the pandemic. A University of Sheffield economic research series paper estimates that the fraction of work done from home in England and Wales will increase by 20 percentage points post-pandemic (in 2022) over its pre-pandemic level, rising to nearer 30 percentage points for workers in London. The increase is highest for western areas of the city along the river (Map 1). This reflects that the re-location will be greater for better paid professional occupations, which will skew spending toward the most socio-economically affluent geographic areas. Around £3.0 billion in annual national retail and hospitality spending (1.5% of total spending), or around 77,000 jobs, may re-locate away from urban centres to more widely dispersed residential areas, or be lost. For London, the re-location or loss of spending may be by £1.5 billion, and 38% or £0.56 billion of this total might leave the city. Spending may fall by as much as 34.7% at Canary Wharf, and 31.6% in the City of London. It may go up by over 50% in three areas of London, South Hampstead (68.1%), Tooting Bec Common (57.8%), and Millwall South (57%). This analysis, though, does not take account of the impacts on office space, nor the loss of tourism on central London's retail and hospitality sector, which potentially might be far larger than that from less commuting.



Map 1: Estimated percentage point change in remote working 2022 over 2019, London, Middle Super Output Areas (MSOAs)

Source: De Fraja G et al (2021). 'Covid reallocation of spending: the effect of remote working on the retail and hospitality sector', Sheffield Economic Research Paper Series 2021006

Note: figures estimated as a percentage of neighbourhood workforce

London's share of public expenditure increases during the pandemic

Looking at the history of the pandemic HM Treasury has published analysis of regional public expenditure for 2020/21. UK expenditure rose by 29% from £797bn to £1,026bn (in cash terms). Expenditure in London rose by 43% from £98bn to £139bn. Nationally health expenditure increased by 24%, while in London it rose by 19%. Expenditure on economic affairs more than doubled in both London and the UK, reflecting the introduction of the furlough scheme, expenditure on Universal Credit, the Eat Out to Help Out scheme and revenue support for transport operators in the absence of fare revenue from commuters. The London estimates also reflect the labour market challenges the capital has faced, the fact that it has made a disproportionately large use of the furlough scheme and its comparatively greater rise in the claimant count. Prior to 2020/21, London was making a much greater contribution to the Exchequer in taxes than it was receiving in expenditure.

Growth in output continues and is currently expected to do so into the new year

The ONS has published its first estimate for London's GDP growth in Q1 2021, the time of the last lockdown. Quarter-on-quarter London's GDP fell by 0.1% in this quarter, which demonstrates that the capital's economic activity has become more resilient through periods of restrictions on movement.

More surprisingly, London's productivity (output per hour) rose by 3.4% between Q1 2020 and Q1 2021. While output fell by 3.4% over this time, hours worked fell by more at 6.5%. Curiously, while increasing hours and jobs will increase output, it may weaken productivity growth if it is in lower productivity sectors such as hospitality. Productivity dynamics may be complicated over the coming months and years. The effects of Brexit are likely to be a drag, as might the recovery of the tourism sector, but the greater use of digital technologies may be a boon, as it has been in the shift to online retail.

The latest ONS UK monthly GDP estimates make plain the imbalances in the national economy as it recovers. UK service sector activity has now returned to its pre-pandemic level (by this way of measuring GDP) and grew by 0.4% in October – the service sector accounts for 80% of UK economic activity, and 90% of London activity. This however hides differences in the service sector as consumer-facing services are 5.2% below their pre-pandemic levels, while all other services are 1.4% above. In total, however, UK GDP as a whole only grew by 0.1% in October indicating the issues faced by the economy even before the Omicron variant.

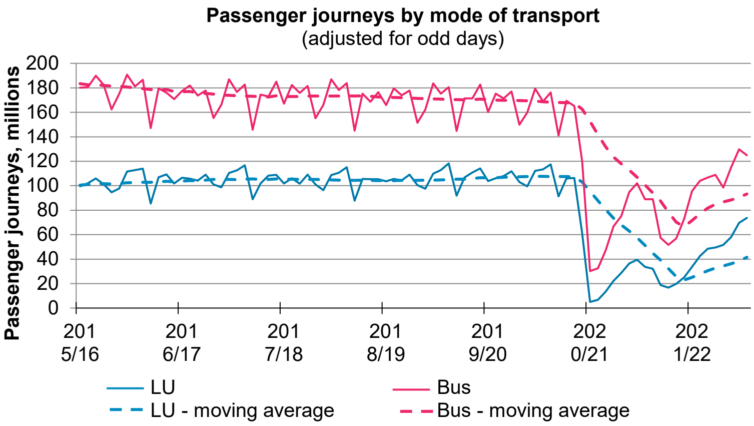
The GLA Economics outlook for London is provided in our latest macroeconomic scenarios, which are also the subject of this month's supplement. It confirmed that economic growth has been healthy this year, and that output is likely to recover to pre-pandemic levels by Q1 2022. The jobs recovery will be slower, reflecting the decline in arts and hospitality in central London from fewer commuters and tourists, and is not expected to recover to pre-pandemic levels until Q1 2023.

Economic indicators

Passenger journeys on London public transport dropped slightly going into Winter, and prior to the announcement to work from home

- 198.6 million passenger journeys were registered between 17 October 2021 and 13 November, 0.8 million journeys less than in the previous period (19 September – 16 October 2021).
- In the latest period, 73.7 million of all journeys were underground journeys and 124.9 million were bus journeys. A fall in bus journeys more than offset a slight rise in underground journeys.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 128.9 in the previous period to 134.7 in the latest period.

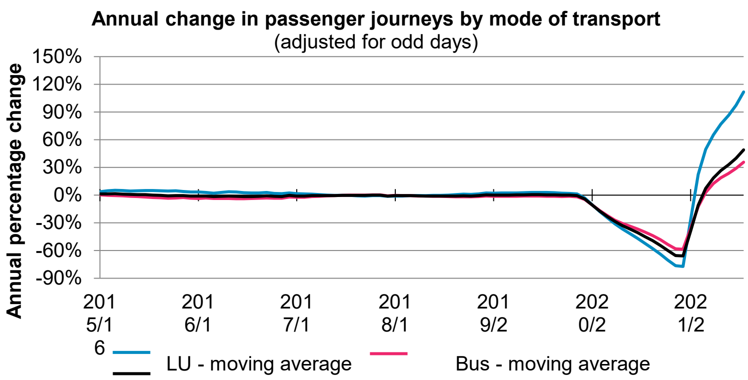
Source: Transport for London
Latest release: December 2021, Next release: January 2021



The dramatic fall in the moving average annual change in passenger journeys in London continued to be reversed prior to the announcement to work from home

- The 13-period moving average annual growth rate in the total number of passenger journeys was 49.1% in the period 17 October to 13 November, up from 39.9% in the previous period, 19 September to 16 October.
- The moving average annual growth rate of bus journeys increased from 29.0% to 35.7% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 97.3% to 111.8% between those periods.

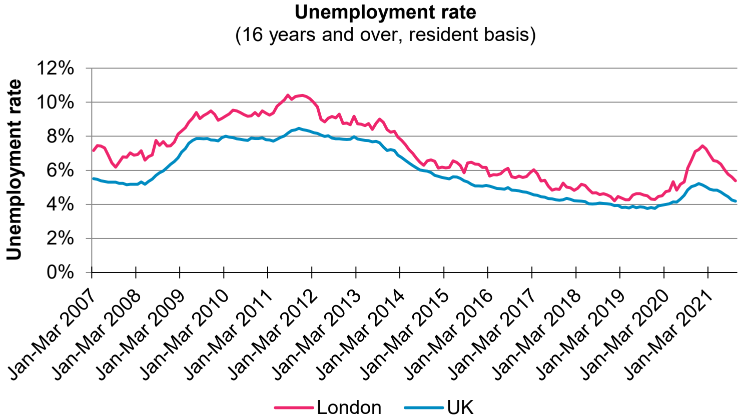
Source: Transport for London
Latest release: December 2021, Next release: January 2021



London's unemployment rate fell to 5.4% in the quarter to October 2021

- Around 261,000 residents 16 years and over were unemployed in London in August - October 2021.
- The unemployment rate in London was 5.4% in that period, down from 6.0% in the previous quarter, May – July 2021, which was one of the highest rates in seven years.
- The UK's unemployment rate also decreased, from 4.6% in May – July to 4.2% in August – October 2021.

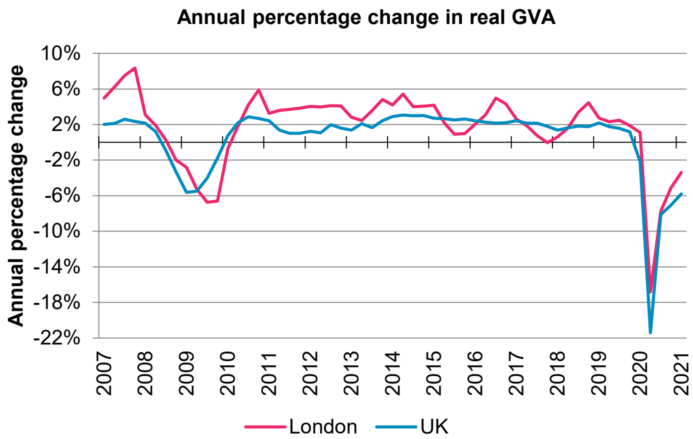
Source: ONS Labour Force Survey
Latest release: December 2021, Next release: January 2021



London's economy is estimated to have contracted by 3.4% in the year to Q1 2021

- London's real GVA contracted by 0.1% in Q1 2021 - compared with Q4 2020 - after growth of 3.1% in the previous quarter. London's real GVA in Q1 2021 remained 5.2% below its pre-crisis level in Q4 2019.
- The UK's real GDP quarterly growth rate for Q1 2021 was -1.4% after growth of 1.1% in the previous quarter. Overall UK GDP in Q1 remained 8.3% below its pre-crisis level in Q4 2019.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so should be more robust.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012 have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

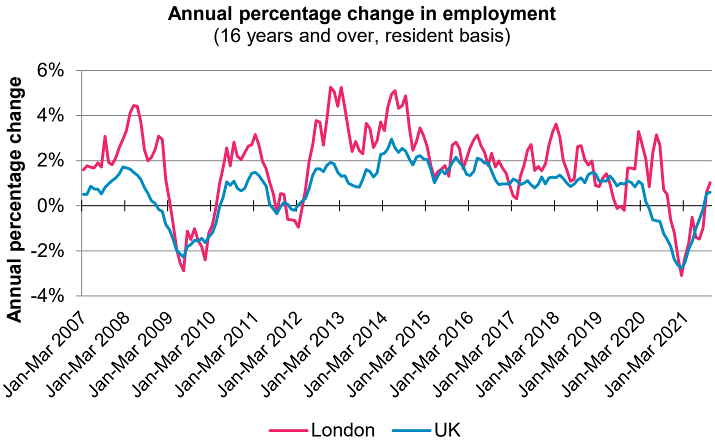
Source: ONS and GLA Economics calculations
Latest release: December 2021, Next release: February 2021



London's year-on-year employment growth rate was 1.0% higher in the quarter to October 2021

- Around 4.6 million London residents over 16 years old were in employment during the three-month period of July – October 2021.
- The rate of employment growth in the capital was 1.0% in the year to this quarter, compared with -1.5% in the previous quarter to July 2021.
- The change in the UK's employment annual growth rate was 0.6% in the most recent quarter, and -0.6% in the previous quarter.

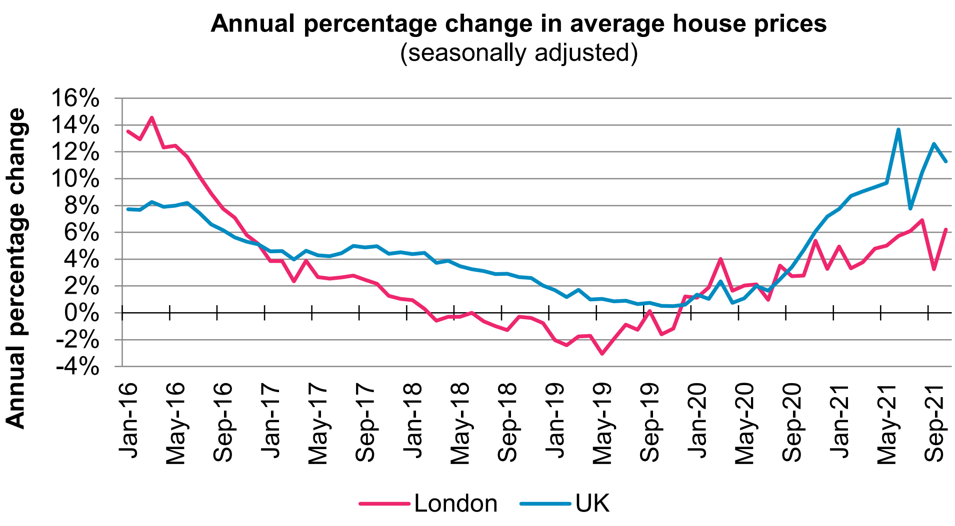
Source: ONS Labour Force Survey
Latest release: December 2021, Next release: January 2021



House prices growth in London picked up again slightly in October

- In October 2021, the average house price in London was £514,000 while for the UK it was £267,000.
- Average house prices in London rose by 6.2% in annual terms in October, more than the September rate of 3.3%
- Average house prices in the UK rose by 11.3% in annual terms in October, less than the September rate of 12.6%.

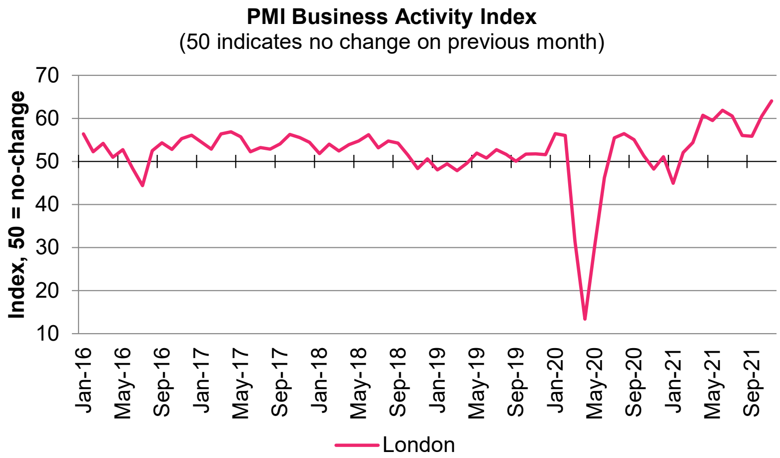
Source: Land Registry and ONS
Latest release: December 2021, Next release: January 2021



In November, the sentiment of London's PMI business activity index remained positive for the tenth consecutive month

- The business activity PMI index for London private firms increased from 60.5 in October to 64.1 in November.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

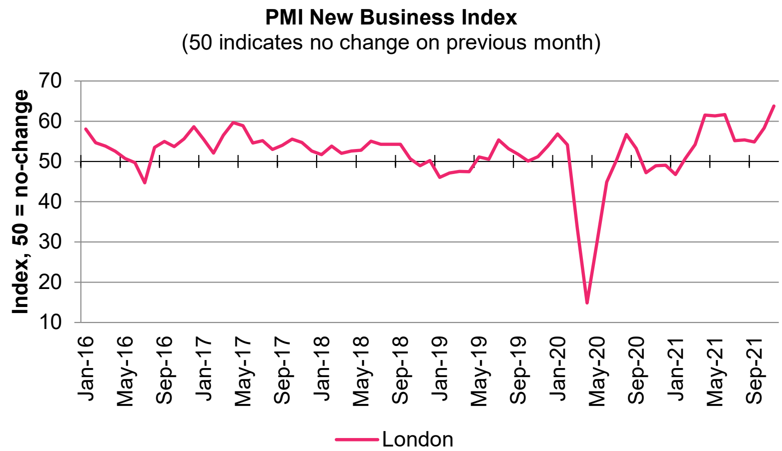
Source: IHS Markit for NatWest
Latest release: December 2021, Next release: January 2021



In November, the sentiment of London's PMI new business activity index remained positive for the tenth consecutive month

- The PMI new business index in London increased from 58.3 in October to 63.8 in November.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

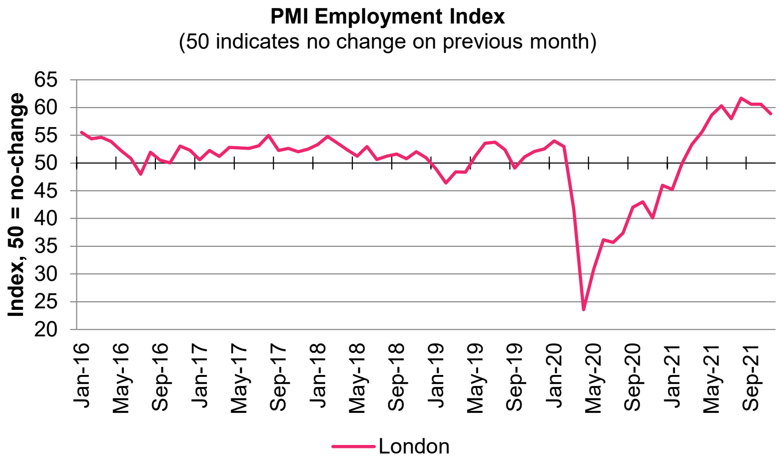
Source: IHS Markit for NatWest
Latest release: December 2021, Next release: January 2021



In November, the sentiment of the PMI employment index in London remained positive for the ninth consecutive month

- The Employment Index for London decreased slightly from 60.6 in October to 58.9 in November. Prior to March 2021, the last time sentiment was positive was in February 2020. The index is at near its highest level since records began in 1997.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

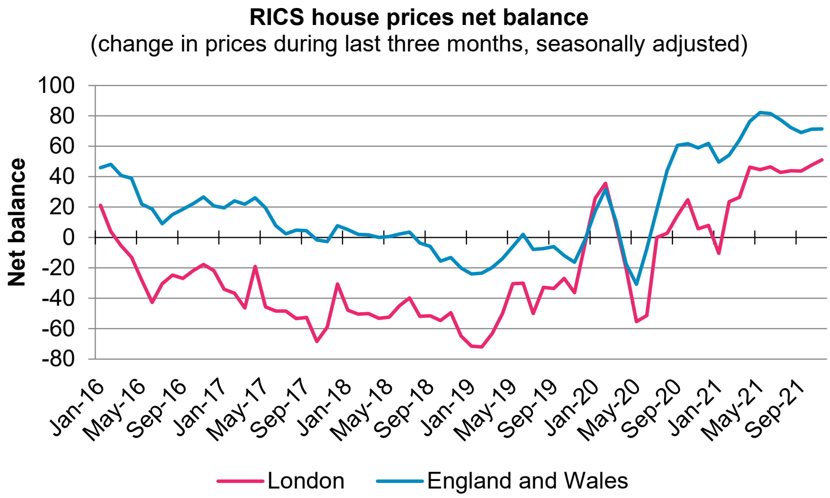
Source: IHS Markit for NatWest
Latest release: December 2021, Next release: January 2021



The net balance of property surveyors continued to report an increase in house prices in London in November

- In November, the net balance of property surveyors in London reporting a rise in house prices was 51, and in October 48.
- For England and Wales, the RICS house prices net balance index stayed the same from October to November at 71.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

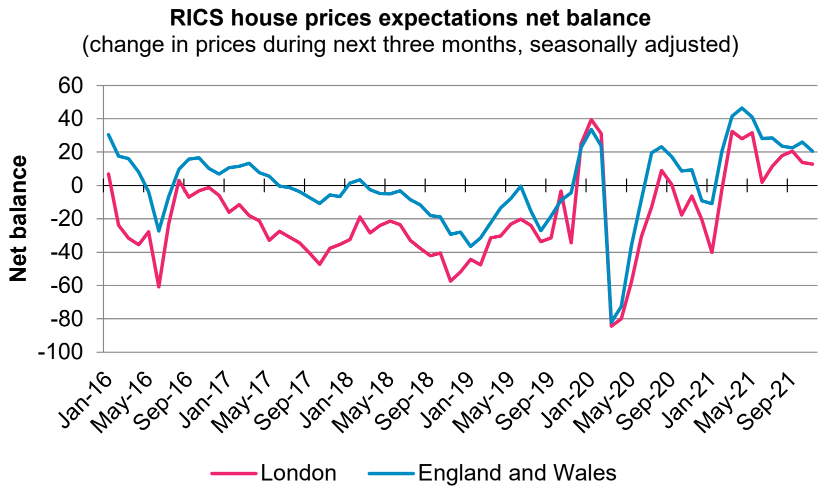
Source: Royal Institution of Chartered Surveyors
Latest release: December 2021, Next release: January 2021



In November, expectations for house prices for the next three months remained positive according to surveyors

- The net balance of house prices expectations in London was 13 in November, slightly down on the balance of 14 in October.
- Sentiment in England and Wales was 21 in November a decrease from 26 in October.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

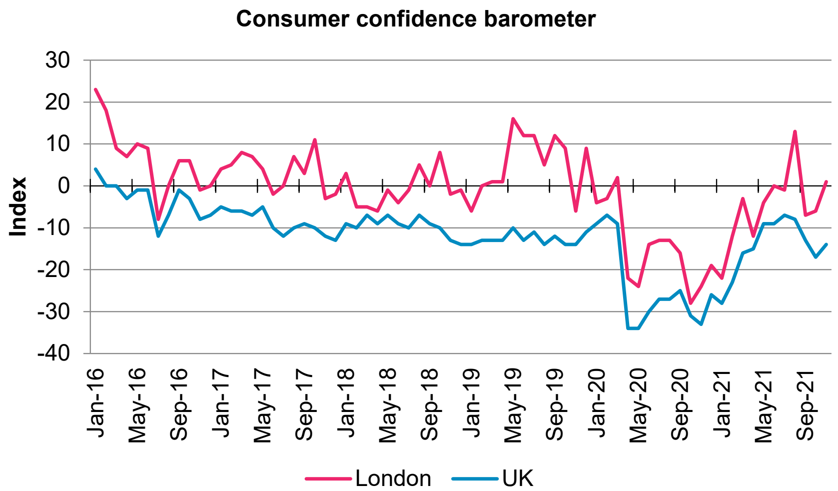
Source: Royal Institution of Chartered Surveyors
Latest release: December 2021, Next release: January 2021



Consumer confidence in London turned positive in November

- In November, the consumer confidence index in London increased to 1, from -6 in October.
- The sentiment for the UK increased from -17 in October -14 in November. The UK has not seen a positive index score since January 2016.
- 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.

Source: GfK
Latest release: November 2021, Next release: December 2021



COVID-19: London macroeconomic scenarios (December update)

James Watson, Economist

GLA Economics has recently published its latest macroeconomic scenarios-based forecast for London in the 39th edition of London's Economic Outlook. We have also updated our macroeconomic scenarios publication with more information on the scenarios and their drivers. These scenarios are part of wider work on the impact of the COVID-19 pandemic on London's economy, and they have been informed by expert consultation and existing literature on pandemics and macroeconomic scenarios[1]. The two main outcome variables are real Gross Value Added (GVA) – a measure of London's output – and workforce jobs (WFJ) – a measure of employment. We project both variables over the medium term (to the end of 2023) and we also project GVA over the longer term (to 2031).

In this context, we have developed three main macroeconomic scenarios for London founded on three sets of plausible narratives for the economy.

1. Fast economic recovery (an optimistic but plausible scenario)

2. Gradual return to economic growth (the GLA Economics baseline reference scenario)

3. Slow economic recovery (a plausible pessimistic case)

These scenarios are not definite predictions about the only possible paths for the economy, nor do they represent optimal policy responses. Instead, they rely on judgements around several key assumptions, including the effectiveness of the public health response to the pandemic, and the impact of economic support measures[2]. The scenarios also do not capture the full range of uncertainty about the future, which is likely to be much wider.

1 See the list of GLA summaries on external research on COVID-19, which have frequently included summaries of macroeconomic scenarios and forecasts publications.

2 For more detail on these assumptions see slides 8 to 11.

Within this framework, we can set out the narrative and key results of the main scenarios. Scenario 2 is our baseline, involving a gradual return to economic growth. At the current time it is clear that the Omicron variant of COVID-19 spreads more rapidly than previous variants, but the health impacts are not well understood. On this basis, the baseline scenario assumes that even with the spread of the Omicron variant, booster vaccinations and increased social distancing will prove sufficient to avoid a wave of severe virus cases over the winter. As London's economy has become more resilient to the introduction of restrictions it is assumed that the recovery continues, even if growth is slower in Q1 2022. Yet high inflation, supply chain challenges and the beginnings of a structural shift of activity based on more home working all mean that the recovery slows across the second half of 2022 and there is some medium-term scarring in output.

Scenario 1, a plausible upside, involves a faster economic recovery. In this scenario, we not only assume that the Omicron variant – and any other future virus variants – are controlled without strain on the health system, but we also assume that the combination of still-loose macro policy and improving confidence allows consumers to release more of their pandemic savings and allow businesses to raise investment. This would boost demand, raising output and employment and eliminating the medium-term output scarring in our baseline.

Scenario 3, a plausible downside, assumes further strict activity restrictions are needed over winter to control a rise in severe COVID-19 cases from the Omicron variant. We would expect some policy response to soften the economic blow. However, despite these mitigating factors, new restrictions and high inflation would be likely to dent consumer and business sentiment, with increased risk keeping savings elevated, resulting in no release of pent-up demand. This would see the recovery go into reverse in early 2022 and raise the degree of scarring on output and employment in the medium and long term.

Overall, while the medium-term paths for output and employment are mostly higher now than expected at the peak of the crisis, the balance of risks remains clearly skewed to the downside. The downside potential for London's economy is significant, with GVA in the slow recovery scenario ending 2023 over 4% below the baseline, while the upside ends 2023 a slightly narrower 3% above the baseline. The balance of risks would push even further to the downside if the highly-transmissible Omicron variant causes widespread serious illness in vaccinated individuals. The breadth of the gap between scenarios also demonstrates that uncertainty remains very high around economic conditions. As a result, while our baseline is broadly optimistic about the progress of the recovery, the broader picture of our scenarios for London's economy is more cautious.

The main results are presented below:

Headline recovery in the medium term (2021 to 2023)

Under the **gradual return to economic growth scenario**, our baseline, **London's real GVA is expected to grow quite strongly by 6.4% this year** after the easing of lockdown restrictions and a smooth end to the furlough scheme. **The economic recovery will continue next year (5.0%) before slowing in 2023 (3.1%)** (Figure A1).

Jobs will take longer to feel the impact of the recovery. **Employment will tick up this year (0.2%), with moderate growth in 2022 (2.1%) and 2023 (1.2%)** (Figure A2).

Under the fast economic recovery scenario, output growth would stay stronger for longer, with output rising 7% this year and an even stronger 7.4% in 2022, before easing closer to long-term averages with 3.3% growth in 2023. **Employment would also see a much firmer rebound next year**, with this year's growth of 0.4% followed by a 2.8% rebound in 2022, before job growth eases to a moderate 1.2% in 2023.

Meanwhile **in the slow economic recovery scenario, the output recovery largely ends this year**, with still-firm 5.8% growth in 2021 followed by more normal growth of 2.0% in 2022 and 2.5% in 2023. **Jobs growth also slows to its medium-term pace faster**, with stagnation this year followed by growth of 1.1% in 2022 and 1.2% in 2023. **These profiles do not return to pre-pandemic trends over the forecast horizon**.

Real GVA is expected to reach its pre-crisis level in Q1 2022 in the baseline scenario (Figure A3) while WFJs only reach pre-crisis levels in Q1 2023 (Figure A4).

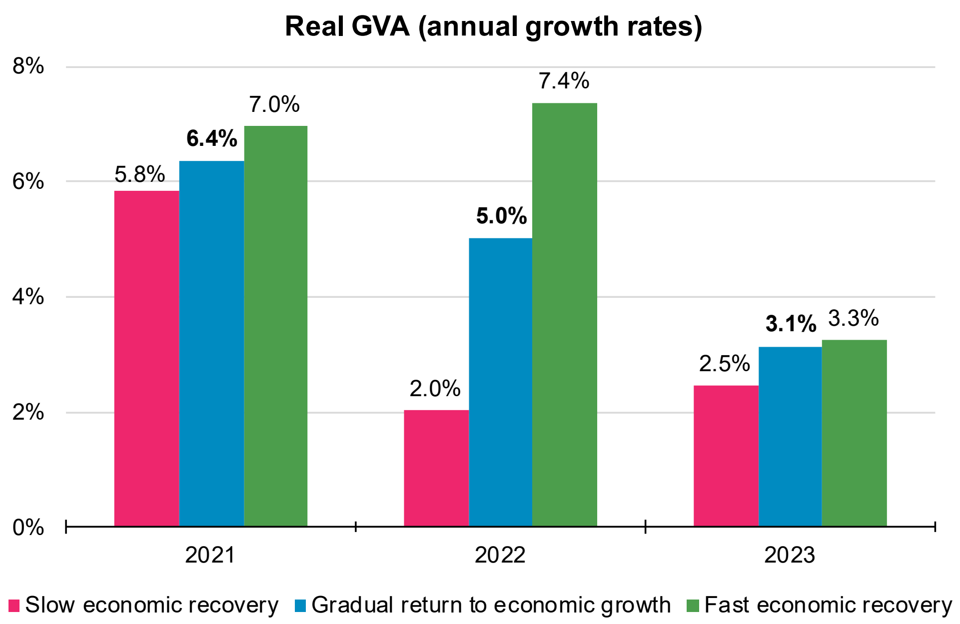


Figure A1: Medium-term real GVA projections, annual growth rates

Source: GLA Economics

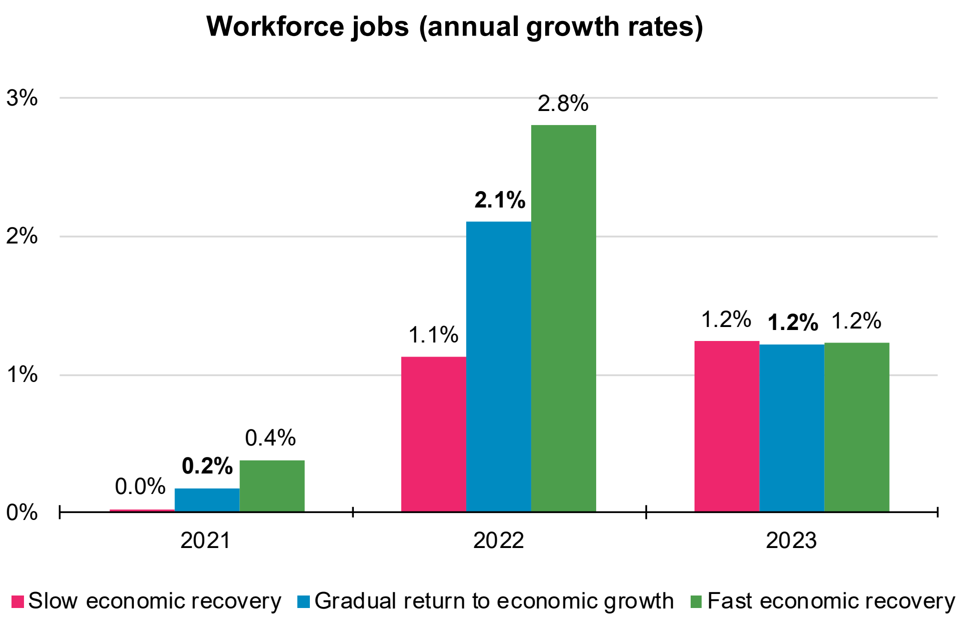


Figure A2: Medium-term Workforce jobs projections, annual growth rates

Source: GLA Economics

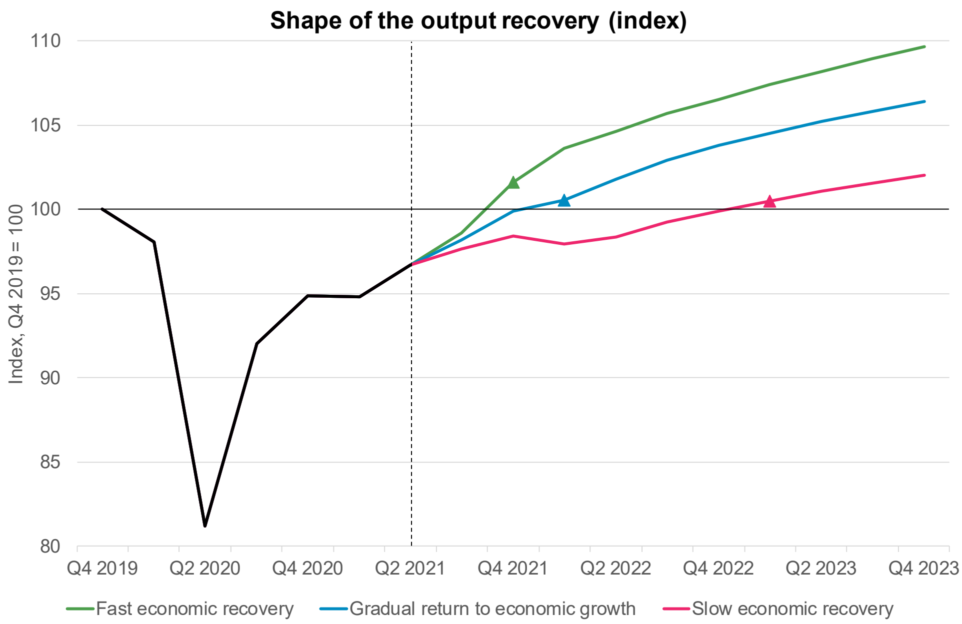


Figure A3: Shape of the output recovery in London (index)

Source: GLA Economics; Note: Index uses Q4 2019 level = 100. The 'triangle' indicates the quarter when the series reaches pre-crisis levels (if the triangle is above 100, pre-crisis levels were surpassed in the same quarter).

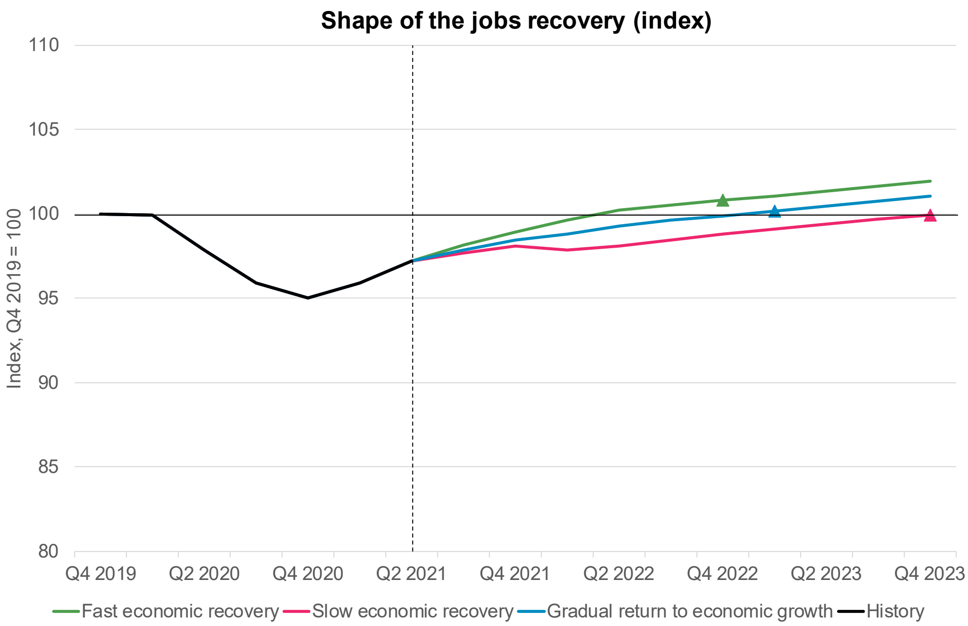


Figure A4: Shape of the jobs recovery in London (index)

Source: GLA Economics; Note: Index uses Q4 2019 level = 100. The 'triangle' indicates the quarter when the series reaches pre-crisis levels (if the triangle is above 100, pre-crisis levels were surpassed in the same quarter).

GLA Economics projections for 2021 have tended to become more optimistic for output and jobs in successive iterations of our forecasts/scenarios, and **the jobs recovery is now set to arrive faster** due to an unexpected rebound in the first half of 2021.

However, the **output recovery is expected to come at the same time as expected at the start of the crisis**, because while the economic impact in 2020 was less than expected, this was offset by the slowdown in early 2021 due to the third lockdown.

Sectoral output recoveries in the medium term (2021 to 2023)

London's economic recovery is set to vary widely across industries (Table A1).

While we expect firm output growth in 2021 and 2022 in much of the economy, the **sectors most affected by the pandemic will see output remain below 2019 levels**.

Examples include **Arts and entertainment**, where output in 2022 will still be over 10% below 2019 levels, despite growing a total 34% over two years. **Transportation and storage** and **Construction** will also lag 2019 output in 2022 despite rapid growth.

Accommodation and food services face a 9.9% fall in output in 2021 due to ongoing social distancing, leaving 2022 output nearly 36% below 2019 levels.

Other sectors are seeing firm growth despite reaching pre-pandemic output levels this year. This includes sectors that may have adapted faster to home working, such as **Information and communication**, **Financial services** or **Professional services**. It also includes sectors that gain from the shift of consumer demand from services to goods during the pandemic, such as **Wholesale and retail trade** and **Manufacturing**.

Real GVA	% diff from 2019		Annual growth	
Sector	**2021**	**2022**	**2021**	**2022**
Agriculture, forestry and fishing	4.5	7.2	0.4	2.6
Mining and quarrying	35.0	35.3	-0.4	0.2
Manufacturing	4.8	9.5	8.7	4.5
Electricity, gas, steam and air-conditioning supply	-9.5	-4.5	10.9	5.6
Water supply; sewerage and waste management	17.8	24.2	-3.4	5.4
Construction	-17.9	-14.3	13.8	4.4
Wholesale and retail trade; repair of motor vehicles	11.9	13.1	12.6	1.1
Transportation and storage	-31.0	-21.1	5.3	14.2
Accommodation and food service activities	-52.0	-35.9	-9.9	33.6
Information and communication	5.2	9.1	9.0	3.8
Financial and insurance activities	5.3	12.0	2.2	6.4
Real estate activities	2.4	5.4	1.8	2.9
Professional, scientific and technical activities	7.0	11.1	7.8	3.8
Administrative and support service activities	2.4	3.3	17.1	0.9
Public administration and defence	5.7	8.8	3.2	2.9
Education	-12.3	-8.4	3.4	4.4
Human health and social work activities	-0.8	5.2	6.8	6.1
Arts, entertainment and recreation	-29.3	-10.7	6.2	26.2
Other service activities	-10.6	1.4	6.0	13.4
Activities of households	-14.3	-6.5	5.4	9.1

Table A1: London's real GVA by industry in 2021 and 2022

Source: GLA Economics

Sectoral employment recoveries in the medium term (2021 to 2023)

Workforce job projections show that **London's labour market recovery is likely to vary even more widely**, with only **some of the capital's core specialist service sectors and the public sector seeing a recovery** across this year or 2022 (Table A2).

Sectors hit hard by the pandemic are likely to see jobs continue to fall in 2021 as the government withdraws key support programs such as furlough. This includes customer-facing service sectors like **Accommodation and food services** and **Arts and entertainment**, as well as **Transportation**.

A less intuitive trend is the projected fall in Wholesale and retail trade jobs in 2021, despite strong output growth. This may be due to the advance of less labour-intensive online retail acting as a brake on job growth in the sector.

London's core specialist service sectors are mostly expected to see employment well above 2019 levels in 2021 and 2022, even if job growth is set to vary widely. **Financial services** is set for fairly **firm job growth** over the two years, while **Information and communication** and **Real estate** see **employment fall in 2021** before staging a recovery in 2022.

The exception to this group is **Professional services**, as modest job growth this year and firm growth next year are not enough for employment to reach 2019 levels.

Areas of the economy dominated by **public sector jobs are projected to generally remain above 2019 levels of employment** as departmental spending is set to grow in real terms across the rest of this parliament (up to 2024).

Workforce jobs	% diff from 2019		Annual growth	
Sector	2021	2022	2021	2022
Agriculture, forestry and fishing	-46.4	-45.2	-26.9	2.2
Mining and quarrying	2.2	-5.7	2.2	-7.7
Manufacturing	1.9	6.3	-3.7	4.4
Electricity, gas, steam and air-conditioning supply	-29.0	-34.3	-14.5	-7.5
Water supply; sewerage and waste management	-5.0	-8.9	-3.7	-4.1
Construction	-8.1	-7.6	4.5	0.6
Wholesale and retail trade; repair of motor vehicles	-3.5	-3.7	-1.1	-0.3
Transportation and storage	-3.2	-0.4	-2.4	3.0
Accommodation and food service activities	-9.8	-5.4	-2.2	4.9
Information and communication	-5.1	-2.7	-4.5	2.5
Financial and insurance activities	4.9	7.5	4.1	2.5
Real estate activities	7.9	10.7	-2.6	2.5
Professional, scientific and technical activities	-3.4	-0.5	0.7	3.0
Administrative and support service activities	-3.4	-1.2	0.8	2.3
Public administration and defence	8.3	9.6	3.6	1.2
Education	0.0	1.8	-1.7	1.8
Human health and social work activities	5.7	6.5	5.4	0.8
Arts, entertainment and recreation	-6.2	-1.2	-3.8	5.3
Other service activities	-1.6	-0.4	1.9	1.2
Activities of households	-18.9	-26.7	-0.9	-9.6

Table A2: London's workforce jobs by industry in 2021 and 2022

Source: GLA Economics

Long-term projections (2024 to 2031)

Looking at the longer term, **GLA Economics projects that real GVA levels will return to pre-crisis trends** (the post-Brexit counterfactual) **across the next five to six years**, meaning output scarring is confined to the medium term in our baseline (Figure A5).

In our fast economic recovery scenario, output pushes above this pre-crisis trend as soon as next year, helping push London's growth back towards long-term averages.

The slow recovery scenario sees London's output well below the counterfactual in the long term. Heavy scarring in the medium term raises structural unemployment, cuts investment and hits agglomeration benefits, lowering long-term output growth.

As discussed above, these scenarios do not reflect the full range of uncertainty and there could be more downside risk in the long term associated with the city's ability to remain as attractive and competitive as in the two decades prior to COVID-19.

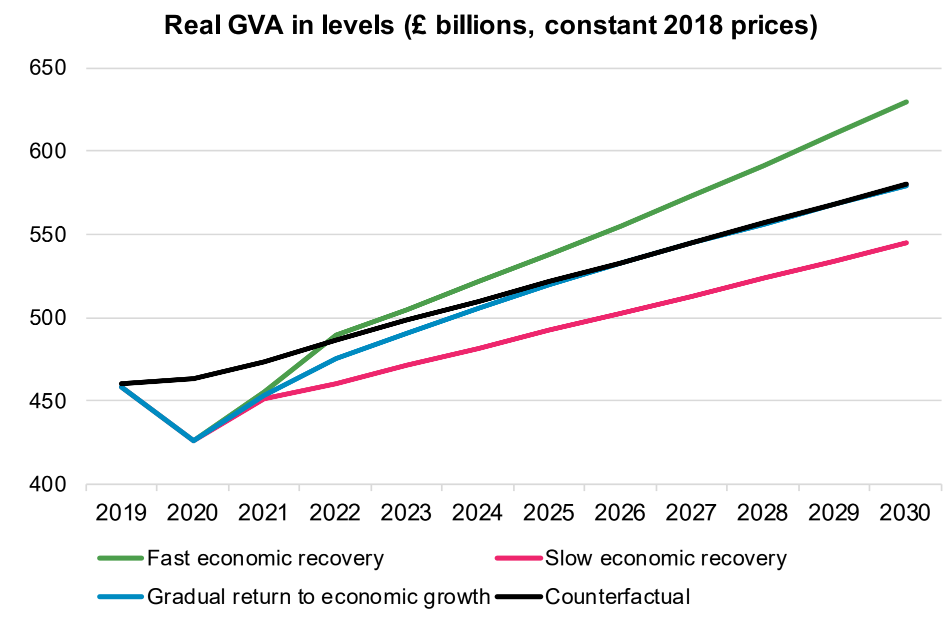


Figure A5: London's real GVA in levels (£ billion, constant 2018 prices) under all scenarios

Source: GLA Economics

The scenario results presented in this supplement come within a context of continuing unprecedented uncertainty. **Overall, GLA Economics judges that risks are tilted to the downside**, especially with the arrival of the heavily-mutated and highly transmissible **Omicron variant**. Despite scientific uncertainty around the variant, concerns are already sufficient to prompt new restrictions, though these are comparatively light-touch for now. **Other headwinds also skew risks to the downside**, including rising inflation, global supply chain challenges, high energy prices and the risk of skill and geographic labour mismatches due to remote working. Uncertainty is also high around the international context and the scope for continuing outbreaks of new variants of COVID-19. Therefore, **GLA Economics will continue to track the economic data in order to review these scenario outcomes in the future**. Successive updates will be released on the London Datastore when they become available.

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This is the final report on the evidence base that is informing and supporting the development of London's Local Industrial Strategy, following on from the interim report published in August 2019. It presents clear, robust and comprehensive evidence on London's economy with a view to supporting the overall objective of achieving inclusive growth in London. It reports on London's strengths, key constraints, issues and risks for the five foundations of productivity introduced by the Industrial Strategy White Paper (Business Environment, People, Infrastructure, Ideas and Place), while also highlighting the linkages between the economy of London and the rest of the UK.

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Retail in London
This report provides an assessment of developments in the retail sector before the outbreak of COVID-19. The conclusion uses these findings to provide an assessment of some of the impacts of the spread of the virus on the sector.

The growth in ecommerce has been impacting adversely on the number of comparison shops since 2015. Despite this the number of retail shops in London rose in 2019.

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London's Economic Outlook: Autumn 2021
GLA Economics' 39th London forecast isuggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 6.4% this year due to the recovery from the COVID-19 crisis. This growth rate is expected to fall slightly to 5.0% in 2022 before moderating to 3.1% in 2023.

Download the full publication.

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London's Economy Today is published towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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About GLA Economics
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.

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