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Inflation rises strongly again

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Annual UK Consumer Price Index inflation (CPI) rose to 10.1% in July, up 0.7 percentage points from the June rate of 9.4%, according to the Office for National Statistics (ONS). This is the highest rate of inflation since 1982, according to ONS modelling. Rising food and non-alcoholic drink prices made the largest contribution to the change – there was a 2.3% increase in these prices between June and July. While excluding energy and food prices inflation has levelled off for the moment at around 6%, stabilising or falling food and energy prices may well not be sufficient to address wider inflationary pressures. This is because the increase in inflation is broadly based with rises in both goods and services inflation (Figure 1).

The price of package holidays also rose much faster this year than in 2021. Increased demand for overseas vacations and the restricted supply of flights have helped to bring this about. Heathrow airport has extended its cap of 100,000 passenger numbers a day to the end of October as staff shortages of ground handling companies remain.

The rise in inflation in the UK has been stronger than in other G7 countries and most European nations. This reflects the UK's greater use

Also in this issue

Datastore

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

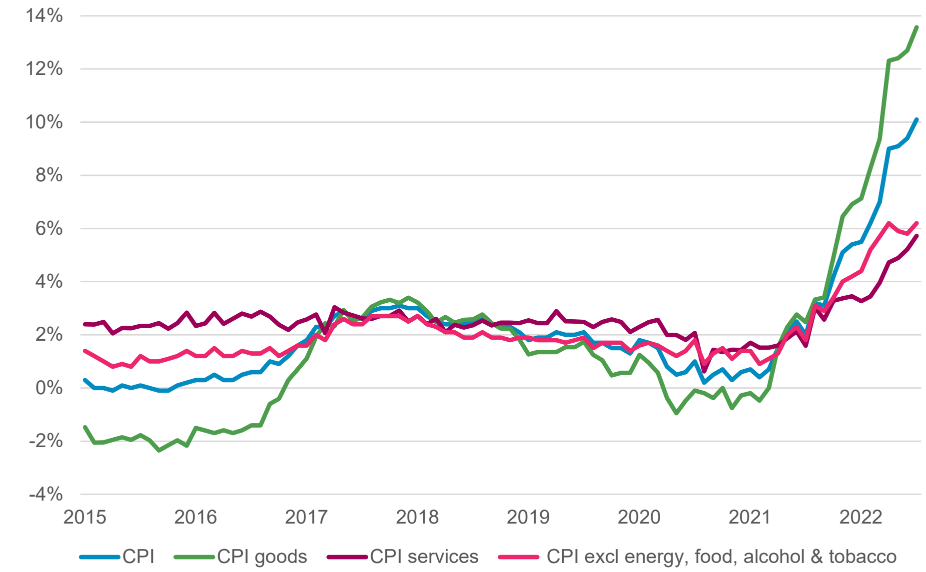


Figure 1: Various measure of CPI inflation, January 2015 – July 2022

Source: ONS CPI release

of gas, and domestic energy prices are set to rise significantly again in October and January when Ofgem resets the energy price cap. Strong private sector pay increases, and the ease with which companies are passing on higher costs to customers also contribute. A ray of good news is that the annual growth in input prices to manufacturers eased slightly this month perhaps because of improving supply chain conditions.

Cost of living pressures deepen

Paradoxically despite high nominal (inflation unadjusted) wage growth compared with recent years, UK living standards fell in the second quarter of 2022 according to ONS analysis. Among UK employees, growth in average total pay (including bonuses) was 5.1%, and growth in regular pay (excluding bonuses) was 4.7%. After inflation, growth in total and regular pay fell on the year in April to June 2022 at 2.5% for total pay and 3.0% for regular pay – this was a record fall for pay. In London, nominal employee pay growth stabilised in July, while inflation accelerated which in turn led to further negative real pay growth (Figure 2).

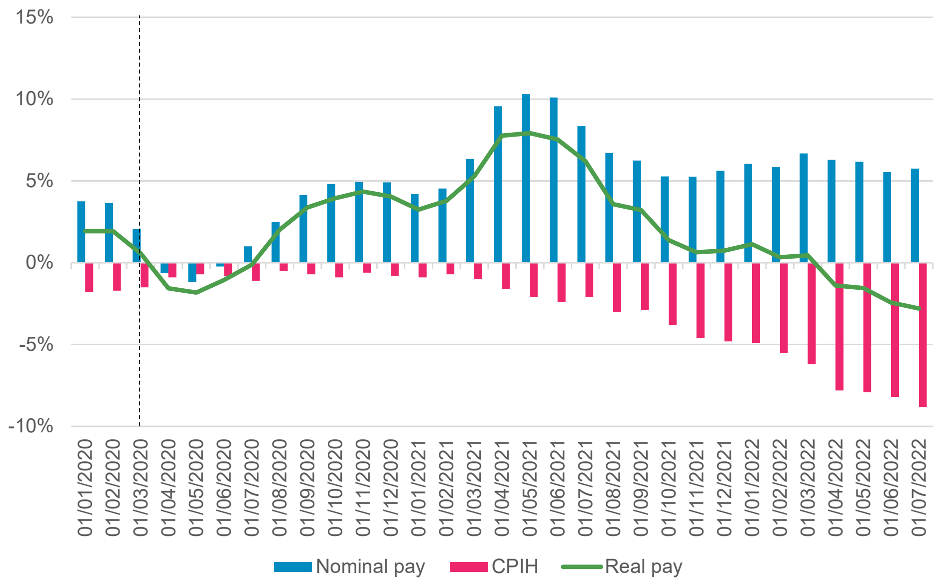


Figure 2: Real median pay growth in London, broken down into nominal pay and inflation

% annual change

Source: HM Revenue and Customs - Pay As You Earn Real Time Information, ONS Note: March 2020 indicated by dotted line. Inflation measure does not account for region-specific housing costs. Sign of inflation rates has been reversed (higher inflation rates are associated with lower real pay growth).

The labour market remains tight with unemployment rates low and employment rates high for both the London and UK labour markets. The exit of one million people over 50 from the UK labour market, and the bar on low skill workers coming to the UK to work following Brexit have constrained labour supply. This has contributed to UK average total nominal pay growth for the private sector of 5.9% in Q2 2022, and stronger bargaining power for workers. In the public sector inflation-adjusted budgets have become tighter as inflation has been higher than expected, and total pay growth was 1.8% in Q2 2022.

Looking at the strains facing Londoners, the GLA City Intelligence Unit has also published this month its second Cost of Living report. It brings together much of the reporting on this subject in this and other LET editorials over the last few months, as well as other bespoke investigations. New analysis suggests that prices are rising faster in London than the wider UK, and that food is one of the largest pressures pushing the capital's inflation above the national average. Also of note is the conclusion that in past periods of high inflation a recession has followed.

UK growth falls in the second quarter of 2022

The UK economy contracted in the second quarter of 2022 according to data published by the ONS. The data showed that in the three months to June UK output fell by 0.1% (Figure 3), although GDP remains above its pre-pandemic peak by 0.6%.

Figure 3: UK GDP, quarter on quarter growth

Source: ONS

Output in the services sector fell by 0.4% in Q2 2022 with the largest contributor to the fall coming from human health and social work activities as COVID-19 related activities were rolled back. However the ONS noted that "the fall in services output was partially offset by increases in output from accommodation and food services", with increases also seen in other service activities and arts, entertainment and recreation. Looking at the monthly GDP data June saw a drop in output by 0.6%, following downwardly revised growth of 0.4% in May. The ONS also noted that "real household expenditure fell by 0.2% in Quarter 2 2022, which was driven by falls in net tourism, clothing and footwear, food and non-alcoholic beverages, and restaurants and hotels".

Bank of England forecasts possible UK recession at the end of the year

The Bank of England (BoE) published a new forecast for the UK economy in August in their Monetary Policy Report. The report showed that the BoE had significantly reduced its baseline forecast for the UK and now expects a recession at the end of this year (Figure 4). The BoE notes that the slowdown "reflects the adverse impact of the very sharp increases in energy, non-energy commodities and tradable goods prices on UK household real incomes and spending". Beyond this the BoE observed that "these pressures will intensify in October when the very large increases in wholesale energy prices feed through to households following the reset of the Ofgem price cap. As a result, household real incomes are projected to fall further and sharply, and GDP is expected to decline by nearly 1% in 2022 Q4. GDP is forecast to fall further in the subsequent four quarters, as real incomes continue to decline".

Figure 4: Bank of England UK GDP growth projection based on market interest rate expectations, other policy measures as announced

Source: August 2022 Monetary Policy Report (Bank of England)

The BoE also undertook a projection for a situation "in which energy prices follow their downward-sloping futures curves throughout the forecast period". In this forecast "the UK economy still enters recession, but activity is stronger in the second half of the forecast, as the pressures on real incomes ease to a greater extent". Looking between these two projections "the peak-to-trough falls in output in the baseline and alternative projections are 2¼% and 1½% respectively".

Despite the projected slowdown in the economy with inflation continuing to rise the BoE has again increased interest rates. The BoE thus raised rates by 50 basis points to 1.75%. This was the sixth increase in the bank rate since December and the biggest increase in 27 years.

World economies still slowing

Economic data from a number of countries has been published in the past month which showed a general slowdown in their economies. US GDP data for the second quarter of 2022 contracted by an annualised rate of 0.9% compared to the previous quarter. This followed on from a decline of 1.6% in Q1 2022. Inflation in the US moderated a touch in July as petrol prices dropped back, with inflation slowing to 8.5% down from 9.1% in June.

Closer to home the Eurozone saw strong growth in Q2 2022 with its economy growing by 0.6%, stronger than the 0.1% growth expected by commentators. Spain, Italy and France all grew in Q2 (by 1.1%, 1.0% and 0.5% respectively), although Germany's economy stagnated with growth standing at 0.0%. The European Central Bank (ECB) has also been intervening to protect the more indebted members of the Eurozone by buying up their debt. Thus, between June and July the ECB injected €17bn into Italian, Spanish and Greek markets using its pandemic era bond buying programme according to Financial Times calculations. At the same time its portfolio of German, Dutch and French debt declined by €18bn.

London faces a range of challenges in the post-pandemic period

This month's supplement reports on the latest iteration of GLA Economics macroeconomic scenarios. As with the BoE forecast for the UK it is more pessimistic than previous forecasts about the future. Unlike the BoE's forecast of an impending recession for the UK, this forecast is predicting weak growth over the coming year. The indicators section of this LET shows that business confidence is holding up, and consumer confidence, while negative, is higher than for the UK. This reflects that there are relatively more well-off people, who still have the security of savings incurred during the pandemic.

Curiously, despite the weaker prospects for London's economy the private rental market in the capital continues to heat up. While the ONS Index of Private Housing Rental Prices has London annual rent growth as the lowest in the UK at 1.7% in June the data on new private rents shows a different picture. Trends were similar in London and the rest of the UK prior to the pandemic when rents fell as people left the capital. Rents started to pick up as people returned from the spring of last year. Annual increases reached double digits late last year, and have continued to remain high by historic standards (Figure 5). Zoopla found that rents increased by nearly 20% in inner London in the first quarter of 2022, and by 10% in outer London. As well as increased demand the supply of private rented accommodation has fallen sharply in London to a five-year low after buy-to-let investors reduced their exposure during the pandemic.

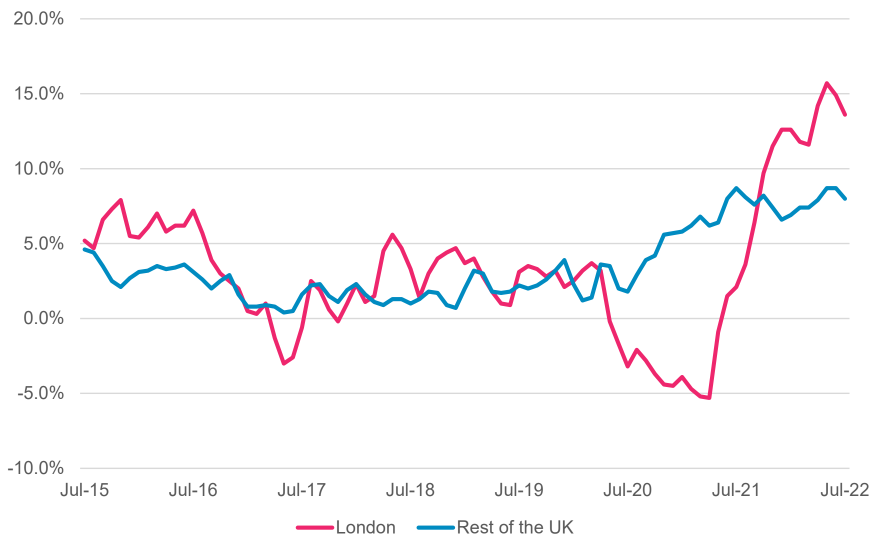


Figure 5: Annual average new private rents, London and the rest of the UK, from year to July 2015 to July 2022

Source: Homelet rental index

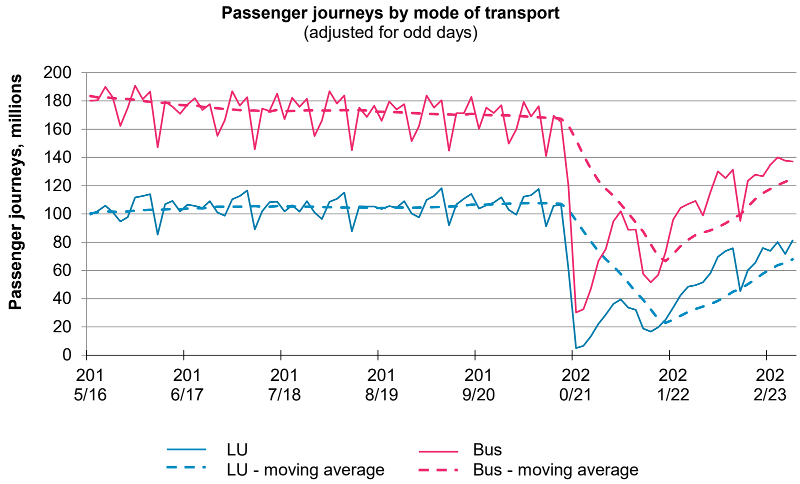
GLA Economics will continue to monitor these and other aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport remains upward

- 218.4 million passenger journeys were registered between 26 June 2022 and 23 July 2022, 9.1 million journeys more than in the previous period (29 May 2022 – 25 June 2022).
- In the latest period, 81.3 million of all journeys were underground journeys and 137.1 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 188.2 in the previous period to 192.8 in the latest period.

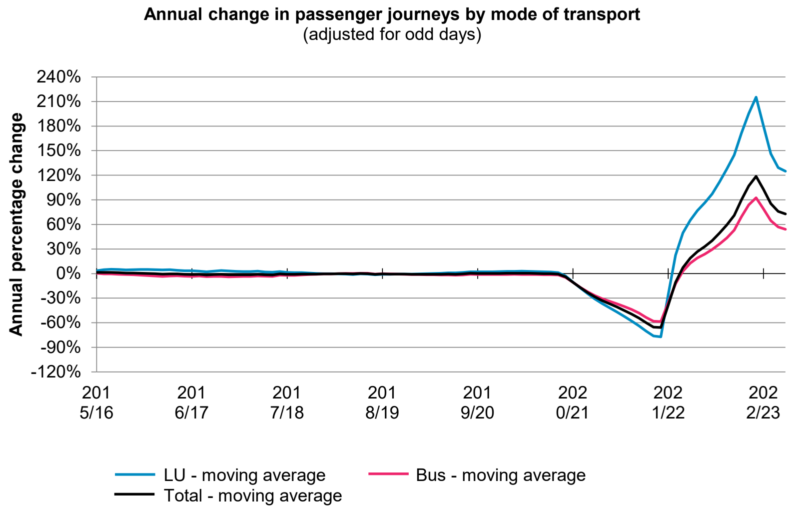
Source: Transport for London
Latest release: August 2022, Next release: September 2022



Annual growth in passenger journey remained strongly positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 72.8% between 26 June 2022 and 23 July 2022, down from 76.0% from 29 May 2022 to 25 June 2022.
- The moving average annual growth rate of bus journeys decreased from to 56.9% to 54.0% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 129.4% to 124.9% between those periods.

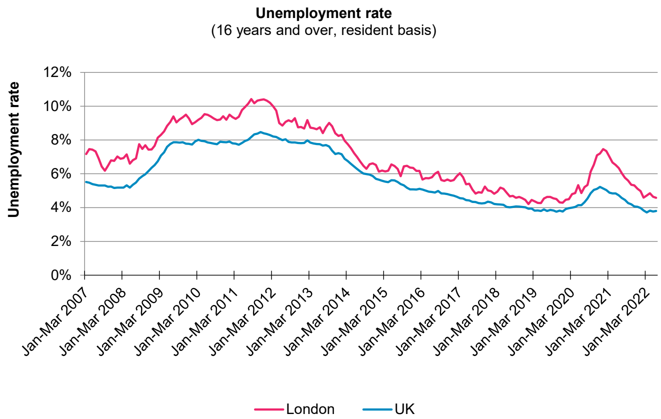
Source: Transport for London
Latest release: August 2022, Next release: September 2022



London's unemployment rate remains low at 4.6% in the quarter to June 2022

- Around 230,000 residents 16 years and over were unemployed in London in April – June 2022.
- The unemployment rate in London was 4.6% in that period, the same as in the previous quarter, January – March 2022.
- The UK's unemployment rate also remained unchanged, at 3.8% in January – March 2022 and April – June 2022.

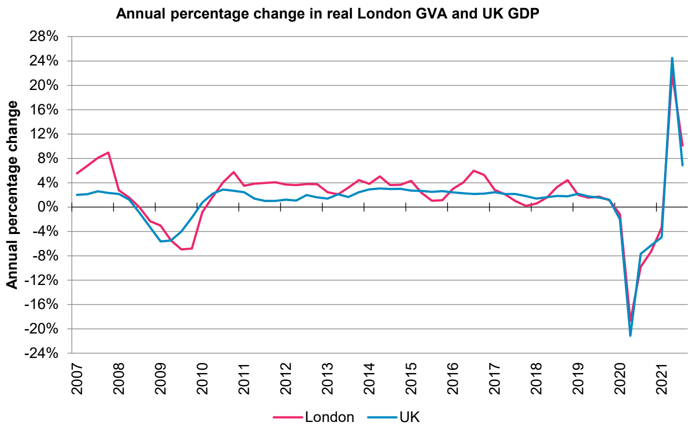
Source: ONS Labour Force Survey
Latest release: August 2022, Next release: September 2022



London's economy had almost returned to pre-pandemic levels of output by Q3 2021

- By Q3 2021 London's GVA was 1.0% below its pre-pandemic level (Q4 2019), and UK GDP was 1.3% below.
- London's real GVA increased by 2.3% in Q3 2021 - compared with Q2 2021 - after increasing by 4.5% in the previous quarter.
- The UK's real GDP quarterly growth rate for Q3 2021 was 0.9% after increasing by 5.6% in the previous quarter.
- 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.

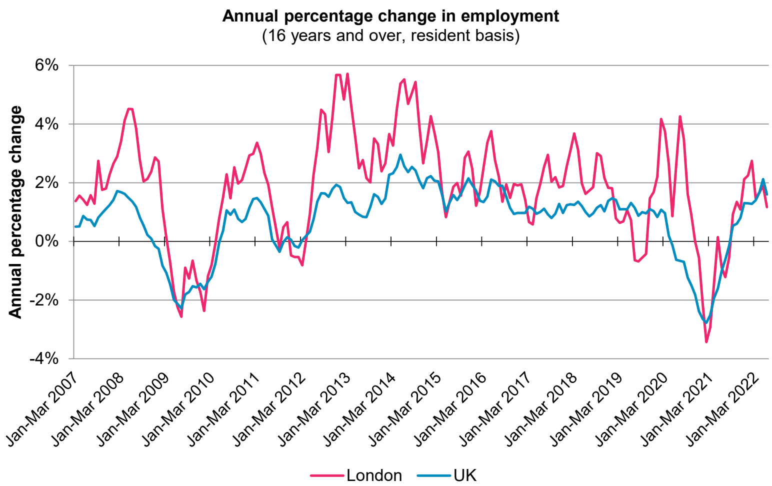
Source: ONS and GLA Economics calculations
Latest release: June 2022, Next release: September 2022



London’s year-on-year employment growth rate was 4.6% in the quarter to June 2022

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of April – June 2022.
- The rate of employment growth in the capital was 1.2% in the year to this quarter, slower than the rate of 1.5% in the previous quarter to March 2022.
- The change in the UK’s employment annual growth rate was 1.6% in the most recent quarter, faster than the rate of 1.4% in the previous quarter.

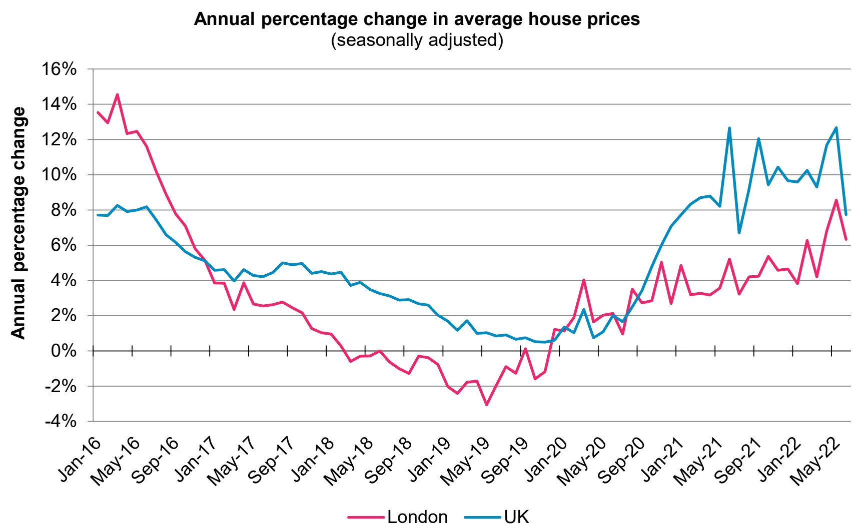
Source: ONS Labour Force Survey
Latest release: August 2022, Next release: September 2022



House prices in London continued to grow in June

- In June 2022, the average house price in London was £536,000 while for the UK it was £280,000.
- Average house prices in London rose by 6.3% in June, less than the May rate of 8.6%.
- Average house prices in the UK rose by 7.7% annually in June, less than the May rate of 12.7%.

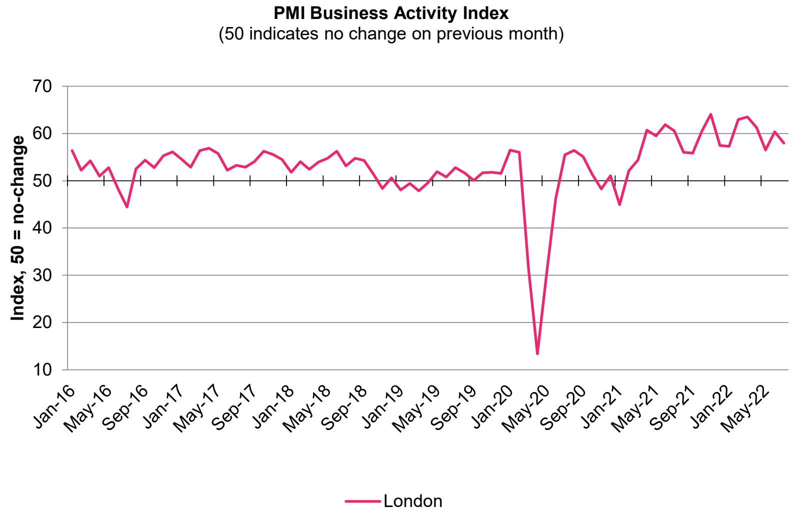
Source: Land Registry and ONS
Latest release: August 2022, Next release: September 2022



In July, the sentiment of London's PMI business activity index decreased slightly but remained positive

- The business activity PMI index for London private firms decreased from 60.3 in June to 58 in July.
- 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.

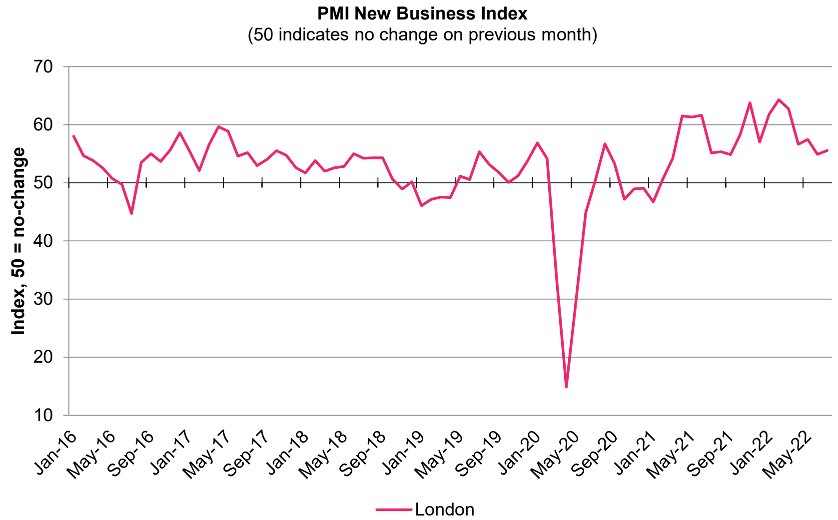
Source: IHS Markit for NatWest
Latest release: August 2022, Next release: September 2022



In July, the sentiment of London's PMI new business activity index increased slightly, and remained positive

- The PMI new business index in London increased slightly from 54.9 in June to 55.6 in July.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

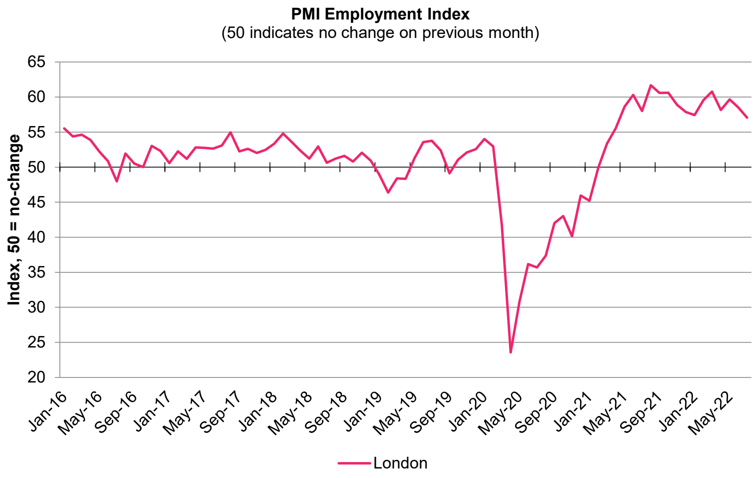
Source: IHS Markit for NatWest
Latest release: August 2022, Next release: September 2022



In July, the sentiment of the PMI employment index in London decreased slightly but remained positive

- The Employment Index for London decreased slightly from 58.5 in June to 57.1 in July.
- 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.

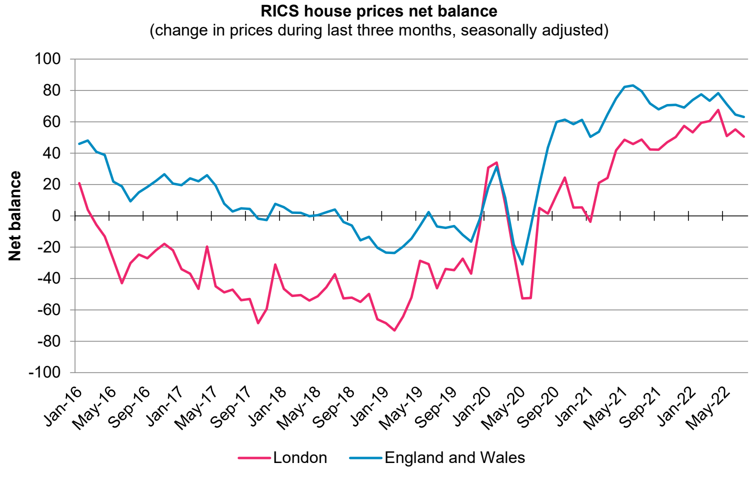
Source: IHS Markit for NatWest
Latest release: August 2022, Next release: September 2022



A significant majority of property surveyors reported an increase in house prices in London in July

- In July, property surveyors in London saw a decrease in the net balance of those reporting rising prices. The net balance index was 51, and in June it was 56.
- For England and Wales, the RICS house prices net balance index decreased slightly to 63 in July from 65 in June.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

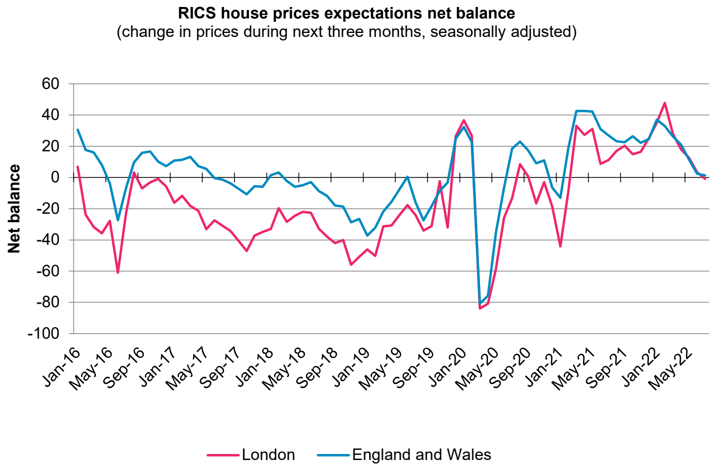
Source: Royal Institution of Chartered Surveyors
Latest release: August 2022, Next release: September 2022



In July, net expectations for house prices in London for the next three months just turned negative, according to surveyors

- The net balance of house prices expectations in London was -1 in July, lower than the balance of 3 in June.
- The index for England and Wales was 1 in July, lower than the value of 3 in June.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

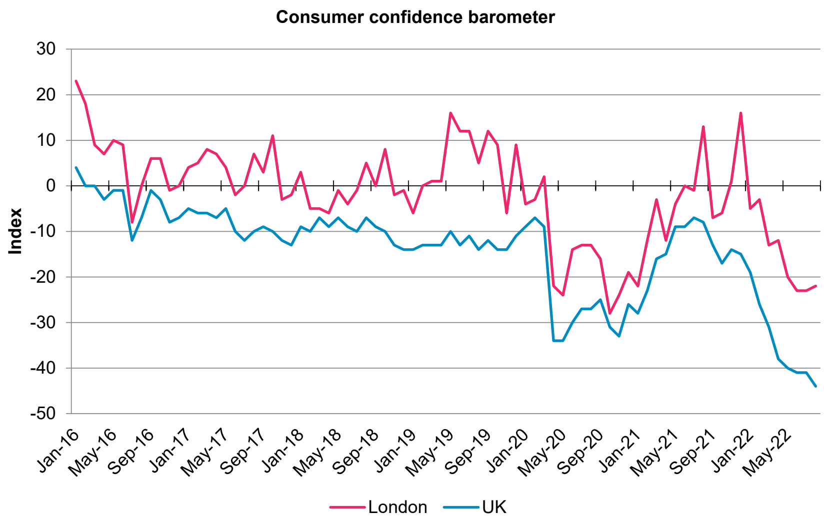
Source: Royal Institution of Chartered Surveyors
Latest release: August 2022, Next release: September 2022



Consumer confidence in London remained negative in August

- The consumer confidence index in London increased slightly from -23 in July to -22 in August.
- The sentiment for the UK decreased from -41 in July to -44 in August. 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: August 2022, Next release: September 2022



London macroeconomic scenarios (August 2022 update)

James Watson, Economist

GLA Economics published its latest macroeconomic scenarios-based forecast for London on 25 August[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 2024) and we also project GVA over the longer term (to 2032).

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 necessarily incorporate optimal policy responses. Instead, they use judgements around several key assumptions. The key dimensions of variation focus on resilience to shocks and policy support, especially around the impact of rising inflation[2]. COVID-19 outcomes form part of the background assumptions. The scenarios do not capture the full range of uncertainty about the future, which is likely to be much wider.

1 These scenarios were developed as 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. 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. Following last year's rapid recovery, this scenario anticipates flatlining growth from the second half of this year and into 2023. Inflation at a 40-year high is squeezing real household incomes and consumer demand is likely to slow. Rising costs and a slowing demand outlook will also drag on businesses' investment and hiring plans. As a result, we see activity contracting at some point in winter 2022-23, before growth picks up again in late 2023 and into 2024. Meanwhile jobs stagnate around the levels of early 2022 and even fall back modestly in early 2023. Employment then resumes a more normal pace of growth and pushes back above pre-pandemic levels in mid-2023.

London's lowest-income households are likely to be particularly vulnerable to the cost-of-living crisis. However, for a macroeconomic assessment, it remains important that London has higher average incomes than the rest of the UK. London's businesses and consumers are also less pessimistic than the UK average in confidence surveys, as reported in the LET indicators. As a result, we do not project a recession for London in our baseline. This contrasts with the downgrade for the UK economy in the Bank of England's August Monetary Policy Report, which explicitly projects a UK-wide recession in late 2022. At the same time not all of London's economy is likely to escape recession. Customer-facing sectors are set for a stark challenge, while rising interest rates and slowing demand are also likely to drag on the housing market. Our forecast now sees it taking ten years for London's output to return to levels consistent with pre-pandemic projections.

Scenario 1, a plausible upside, involves a faster economic recovery. In this scenario, we assume London's stronger aggregate incomes compared to the rest of the UK offer a partial buffer against inflation as richer households spend more of their pandemic savings. As fiscal support offsets part of the shock to real incomes from the cost of living, most consumers stay afloat with savings or manageable credit. We also assume that still-positive business sentiment sees firms absorb higher costs and flagging demand by moderating hiring and investment, rather than making cuts. A mild winter and stabilising commodity prices allow inflation to peak in late 2022. Output and jobs growth both decelerate in late 2022 and early 2023, but do not contract, maintaining a modest pace of recovery. As demand picks up again in the medium term, this prompts stronger business investment, which helps to eliminate long-term output scarring.

Scenario 3, a plausible downside, assumes that London slips into recession later this year. The drag on real incomes hits the lowest-income households the hardest, and lower-income households tend to spend more of their income. As a result, overall consumer demand suffers heavily, dragging the economy into recession. Global energy and food prices continue rising well into 2023 and a harsh winter combined with cuts in Russian gas supplies sharpen the cost of living crisis. As a result, despite weakening growth, the Bank of England is forced to take an aggressive approach to monetary policy, tightening to prevent rising global prices translating into much higher inflation expectations. Amid slowing demand, higher borrowing costs and rising input prices, businesses cut investment and hiring plans sharply. London's output dips back below pre-pandemic levels and takes until late 2024 to recover. Jobs similarly fall back, contracting for several quarters until picking up from a trough in early 2023, but only reaching pre-pandemic levels in late 2024. A fresh downturn and slow medium-term growth mean there is serious economic scarring, persisting into the long term, as firms close and workers lose their jobs.

Figures A1 and A2 show the estimated recovery path of London's output and jobs across the three scenarios described above.

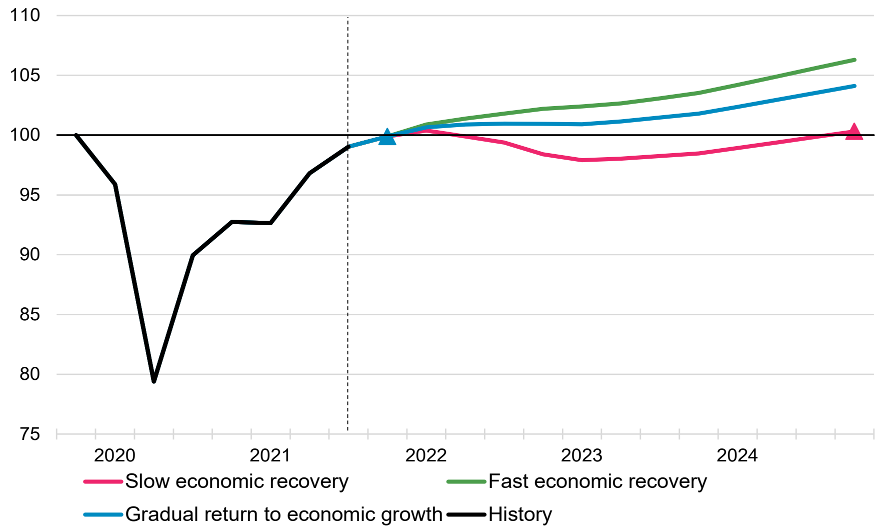


Figure A1: Shape of the output recovery in London (index)

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).

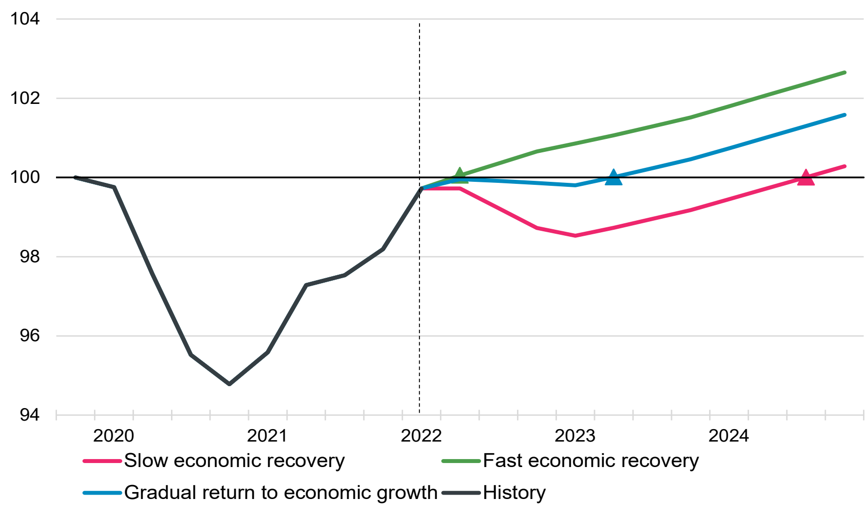


Figure A2: Shape of the jobs recovery in London (index)

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).

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 risk is clearly skewed to the downside. The downside potential for London's economy is significant, with GVA in the slow recovery scenario ending 2024 nearly 4% below the baseline, while the upside ends 2023 just under 2% above baseline. The wide gap between scenarios also demonstrates the high uncertainty around economic conditions.

The main results are presented below:

Headline recovery in the medium term (2022 to 2023)

Under the **gradual return to economic growth scenario**, our baseline, **London's real GVA is expected to grow by 3.9% this year**. This is a firm pace of growth, but mostly driven by momentum in late 2021. This pace is lower than June's 4.5% forecast, and sharply down from 2021's estimated growth of 8.5%. **Weak demand in the second half of 2022 and early 2023 means growth will slow to a crawl in 2023 (0.5%), before recovering a little in 2024 (1.9%)** (Figure A3).

Real GVA has likely already reached its pre-crisis level in Q4 2021 (Figure A1), and a strong Q1 2022 saw workforce jobs reach pre-crisis levels early this year (Figure A2).

The jobs recovery makes less progress than output in our baseline. After ticking up 0.3% last year, **employment is set to see decent growth this year (2.8%), before slowing in 2023 (0.3%) and reaching a modest pace in 2024 (1.0%)** (Figure A4).

Under the fast economic recovery scenario, demand is resilient for longer, though momentum is still weaker in late 2022 and early 2023. In this scenario, output rises 4.6% this year, before easing to 1.3% growth in 2023 and picking up to 2.3% in 2024. **Employment would also see a firmer rebound this year**, with growth of 3.1%, followed by a convergence to medium-term growth of 1% from next year.

In the slow economic recovery scenario, output faces another recession. GVA is up 2.5% in 2022, before a recession this winter sees output average a sharp 1.4% drop across 2023. Output growth then picks up, but to a moderate pace of 1.5% in 2024. **Jobs follow a similar pattern**, with growth of 2.3% in 2022, a 0.5% contraction in 2023 and 1% growth in 2024. **These profiles do not return to pre-pandemic trends** over the forecast horizon.

GLA Economics projections had previously tended to become more optimistic for output and jobs over successive iterations of our forecasts/scenarios. **But the latest iterations are seeing this trend reverse**, especially in the later years of the forecast.

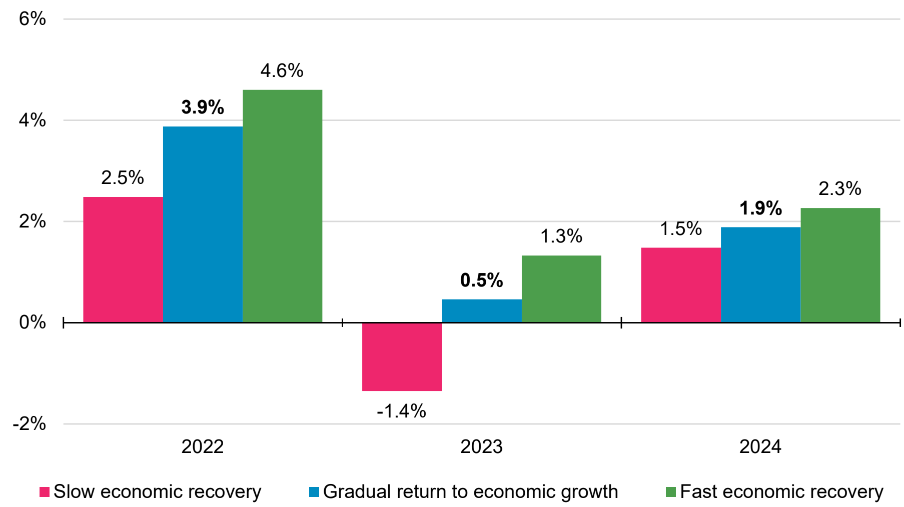


Figure A3: Medium-term real GVA projections, annual growth rates

Source: GLA Economics

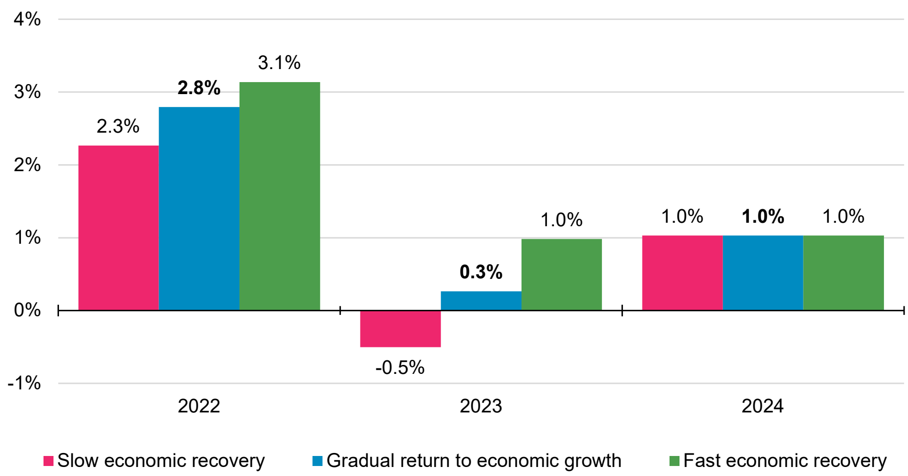


Figure A4: Medium-term Workforce jobs projections, annual growth rates

Source: GLA Economics

Sectoral output recoveries in the medium term (2022 to 2023)

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

The **sectors most affected by the pandemic will see output remain below 2019 levels**. Examples include **Accommodation and food services**, where output in 2022 will still be nearly 28% below 2019 levels, despite growing 21.8%. **Transportation and storage** and **Arts, entertainment and recreation** also lag 2019 output in 2022 despite very strong growth, while **Construction** also faces an incomplete recovery.

Apart from Transportation, all **these sectors all face a contraction next year** as the rising cost of living and high interest rates drag on consumer and housing demand.

London's key **knowledge-sector export industries are set for resilient growth**, such as **Information and communication**, **Financial services** and **Professional services**.

While **Manufacturing** has done well out of a shift of consumer demand to goods from services during the pandemic, it faces a contraction next year as demand falls.

Wholesale and retail trade will see output remain well above pre-pandemic levels, but high inflation prompts a sharp contraction in late 2022 and into 2023.

Real GVA	% diff from 2019		Annual growth	
Sector	2022	2023	2022	2023
Agriculture, forestry and fishing	-0.3	1.0	5.8	1.3
Mining and quarrying	23.7	23.2	-0.9	-0.4
Manufacturing	0.2	-0.1	2.3	-0.4
Electricity, gas, steam and air-conditioning supply	-18.7	-17.1	2.4	2.0
Water supply; sewerage and waste management	21.3	24.0	5.8	2.3
Construction	-12.0	-12.1	4.5	-0.1
Wholesale and retail trade; repair of motor vehicles	17.4	15.4	0.4	-1.7
Transportation and storage	-18.0	-15.7	17.7	2.8
Accommodation and food service activities	-27.6	-28.6	21.8	-1.5
Information and communication	20.7	21.8	6.1	0.9
Financial and insurance activities	0.4	1.8	5.4	1.4
Real estate activities	-0.4	-0.7	0.2	-0.3
Professional, scientific and technical activities	11.9	12.6	3.6	0.6
Administrative and support service activities	7.3	8.0	-0.1	0.7
Public administration and defence	3.4	3.9	-1.2	0.5
Education	-7.5	-6.3	5.3	1.3
Human health and social work activities	-0.4	0.4	0.5	0.8
Arts, entertainment and recreation	-30.6	-31.6	7.7	-1.5
Other service activities	1.0	2.3	11.5	1.3
Activities of households	-11.0	-9.1	7.1	2.2

Table A1: London's real GVA by industry in 2022 and 2023

Source: GLA Economics. Note: colour coding shows the most negative results in red, the most positive results in green, and results in the middle in white. Primary industries are shaded in grey.

Sectoral employment recoveries in the medium term (2022 to 2023)

Workforce job projections show that **for a lot of sectors, London's labour market recovery will still be incomplete** by the end of 2023 (Table A2).

Sectors hit hard by the pandemic are likely to take the longest to recover. This includes consumer-facing sectors like **Accommodation and food services** and **Arts and entertainment**, which are set to fall even further below pre-pandemic job levels.

Wholesale and retail trade jobs are also set to fall next year amid rising inflation.

London's core specialist service sectors face a very mixed outlook for 2022 and 2023. **Information and communication** is set for **resilient job growth** over the two years, while **Financial services** sees weak **falling employment in 2022** before picking up next year. **Professional services** and **Real estate** follow the opposite pattern.

Areas of the economy dominated by **public sector jobs are projected to generally remain above 2019 levels of employment**, though growth is variable as spending plans become more contained in real terms due to higher inflation.

Workforce jobs	% diff from 2019		Annual growth	
Sector	**2022**	**2023**	**2022**	**2023**
Agriculture, forestry and fishing	-46.4	-45.8	100.9	1.2
Mining and quarrying	34.7	38.6	10.2	2.8
Manufacturing	-0.3	2.3	6.1	2.6
Electricity, gas, steam and air-conditioning supply	14.0	18.8	0.6	4.2
Water supply; sewerage and waste management	32.4	30.3	11.9	-1.5
Construction	-10.1	-9.9	9.4	0.2
Wholesale and retail trade; repair of motor vehicles	4.3	3.0	0.8	-1.2
Transportation and storage	-2.0	0.1	0.2	2.1
Accommodation and food service activities	-10.3	-10.4	3.1	-0.2
Information and communication	1.7	2.5	7.6	0.8
Financial and insurance activities	0.0	0.6	-0.5	0.6
Real estate activities	-1.4	-2.9	5.7	-1.5
Professional, scientific and technical activities	5.1	4.8	4.9	-0.3
Administrative and support service activities	-9.2	-8.7	2.5	0.6
Public administration and defence	9.0	8.4	0.1	-0.6
Education	7.9	8.8	4.6	0.8
Human health and social work activities	9.6	10.6	-1.1	1.0
Arts, entertainment and recreation	-6.4	-7.1	4.9	-0.7
Other service activities	-4.1	-3.1	-4.1	1.1
Activities of households	-4.5	-8.2	1.7	-3.9

Table A2: London's workforce jobs by industry in 2022 and 2023

Source: GLA Economics. Note: colour coding shows the most negative results in red, the most positive results in green, and results in the middle in white. Primary industries are shaded grey to avoid them having an outsize influence on shading for the rest of the table.

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) **but that it may take a decade**. This does still mean there is no long-term scarring in our baseline (Figure A5).

In our fast economic recovery scenario, output pushes above this pre-crisis trend in the next five years, 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.

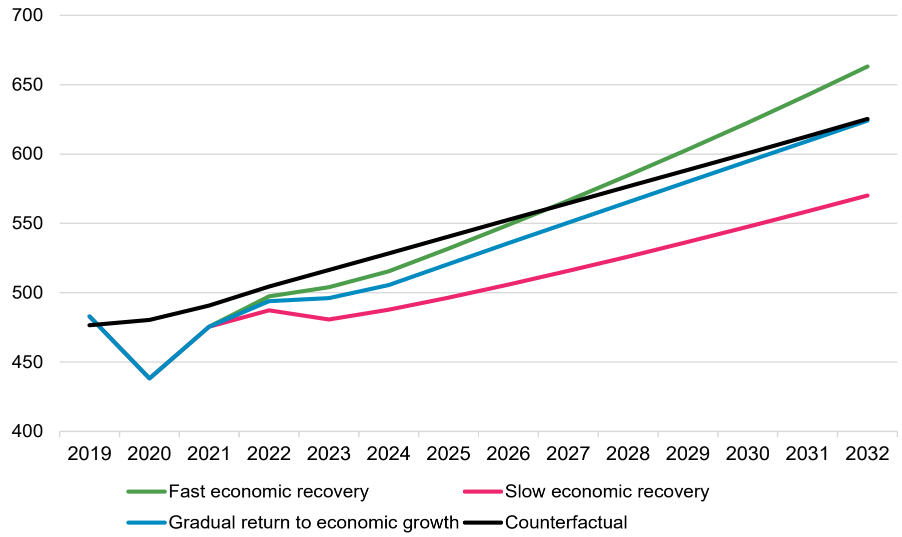


Figure A5: London's real GVA in levels (£ billion, constant 2019 prices) under all scenarios

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 **war in Ukraine potentially raising global commodity prices further,** seeing consumer incomes face an increasingly sharp squeeze from rapid inflation. **Other headwinds also skew risks to the downside**, including heightened geopolitical tensions, the possible emergence of new COVID-19 variants, ongoing global supply chain challenges and the risk of skill and geographic labour mismatches due to remote working. Therefore, **GLA Economics will continue to track the economic data to review these scenario outcomes in the future**. Successive updates will be released on the London Datastore.

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We publish regularly on the state of London's economy, providing the latest economic data for London and interpret how this may affect policy. This includes analysis of recent developments in London's economy and forecasts for the next couple of years.

We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

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The State of London

This new report by GLA City Intelligence brings together a wide range of outcome data relevant to the work of the Mayor and the London Assembly, which will also be of interest to other stakeholders in London.

Download the full publication.

Cost of living - August 2022 update

The cost of living crisis in London threatens to widen existing inequalities, halt the economic recovery from the pandemic and leave many unable to afford necessities.

This report (and accompanying online blog) builds on previous work at the start of this year to set out an evidence base on the impact of the cost of living crisis on Londoners.

Download the full publication.

London's Economic Outlook: Spring 2022

GLA Economics' 40th London forecast suggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 4.5% this year due to the impact of the quarterly recovery from the COVID-19 crisis at the end of last year and beginning of this year feeding through into the annual data. This growth rate is expected to fall to 1.6% in 2023 due to the cost-of-living crisis before improving to 2.3% in 2024.

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.

Images

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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.

MAYOR OF LONDON