GLAECONOMICS

London's Economy Today

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Lockdown easing in England delayed

By **Gordon Douglass**, Supervisory Economist, **Mike Hope**, Economist

With increasing COVID-19 infection rates being caused by the Delta variant the Prime Minister announced on 14 June that the removal of all remaining social and business restrictions originally planned for 21 June would now be postponed for at least four weeks.

Still, the easing of lockdown restrictions that has happened so far has led to strong growth with data from the Office for National Statistics (ONS) published this month showing that UK GDP grew by 2.3% in April 2021 (Figure 1). This was the fastest monthly growth rate since July 2020. GDP in April remained 3.7% below the pre-pandemic levels seen in February 2020, but the ONS notes this was "1.2% above its initial recovery peak in October 2020". With the easing of lockdown during the month the Service sector, a sector of particular importance for London, grew by 3.4% during April, but remains 4.1% below its February 2020 level.

The bounce back in activity was highlighted by the latest Business Insights and Conditions Survey from the ONS which found that "in the week to 14 June 2021, the seven-day average estimate of UK seated diners was at 119% of its level in the equivalent week of 2019" although this was 28 percentage points (pp) lower than the previous week. The proportion of the UK workforce that was furloughed also dropped from 20% in late January to 7% in late May. And retail footfall in the week to 12 June although "at 82% of the level seen in the equivalent week of 2019" was still "the second highest volume of retail footfall as a proportion of its 2019 level seen so far this year".

Also in this issue

Datastore

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

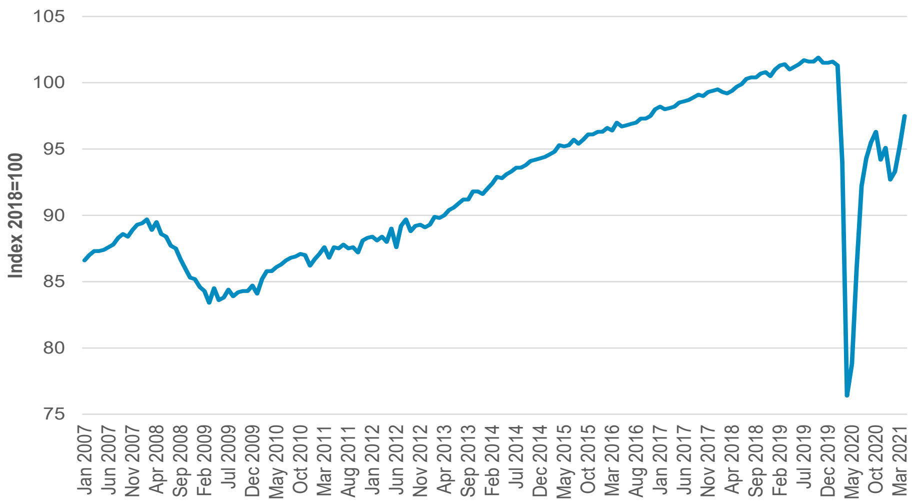


Figure 1: UK monthly GDP, Monthly index, January 2007 to April 2021, UK, 2018 = 100

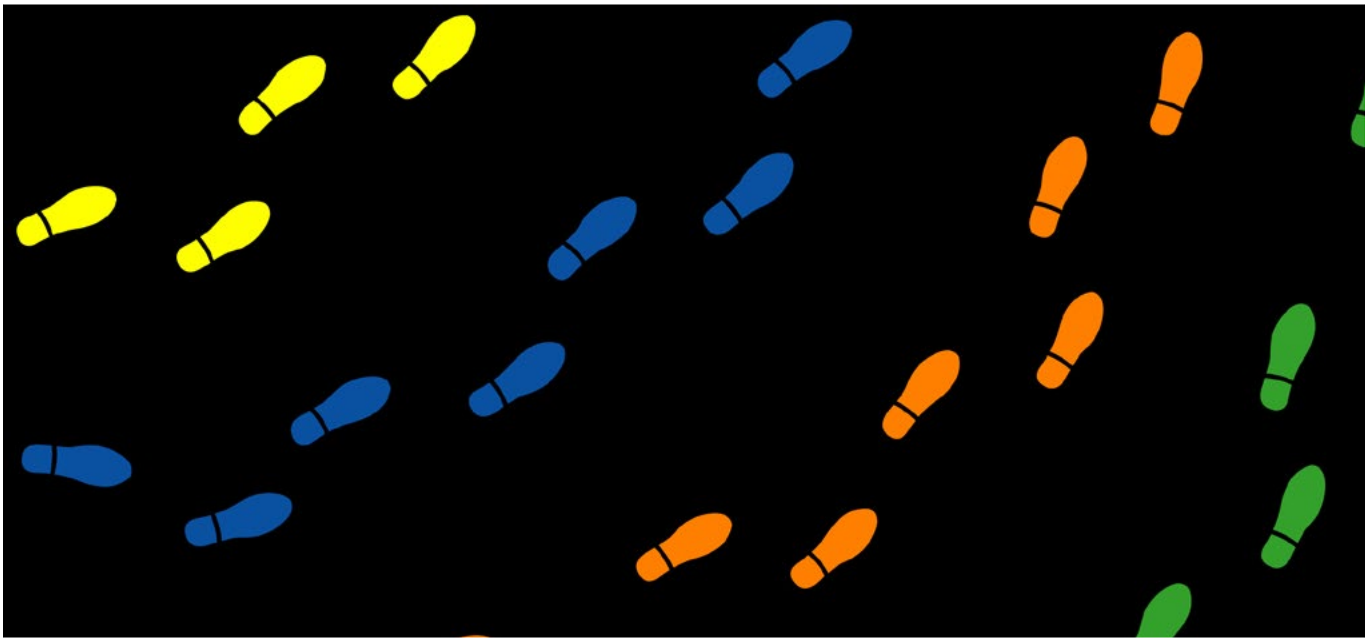
Source: ONS

UK expected to see strong growth in 2021

The OECD was the latest organisation to publish forecasts for the coming year with its Economic Outlook published at the end of May. In this it expects the UK to see "strong GDP growth of 7.2% in 2021 and 5.5% in 2022" with GDP expected to return to pre-pandemic levels next year. Although it does also note that "increased border costs following the exit from the EU Single Market will continue to weigh on foreign trade". However, the OECD also observed that up to the first quarter of this year the economic recovery in the UK lagged behind that of other big economies. It found that the UK had the biggest drop in GDP of 8.7% between Q4 2019 and Q1 2021, behind Italy at 6.4%, Germany at 5%, France at 4.7% and the US at a 0.9%. Meanwhile, the CBI in its latest economic forecast now expects UK GDP to return to pre-pandemic levels by the end of this year. It expects GDP to grow by 8.2% in 2021 and 6.1% in 2022.

Looking at the global labour market, however, recovery is likely to be slower. Specifically, the International Labour Organisation (ILO) has warned that the pace of global job creation is likely to see the employment lost in the pandemic made up only by 2023. While, in terms of unemployment the ILO expects the global rate to stand at 5.7% next year the highest rate since 2013. It did however note the global recovery in unemployment is likely to be uneven with high income economies likely to hit a rate of 5% in 2022, just above their 4.8% pre-pandemic average and down from their 2020 average of 6.8%, due to fiscal stimulus and access to vaccines. Whereas lower income economies are likely to see little change on their 2020 level of 5.2%.

Footfall at London venues is healthy but remains below pre-pandemic levels



Despite the delay in ending all lockdown restrictions, activity in reopened sectors in London remains strong although activity rates also remain below pre-pandemic levels (Figure 2).

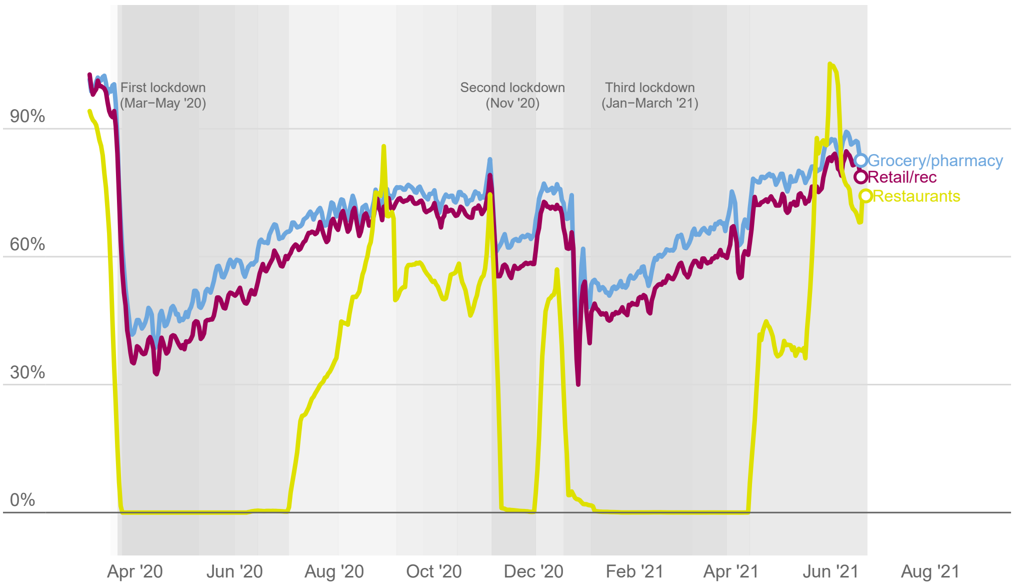


Figure 2: Individual personal activities in London, February 2020 – June 2021, relative to pre-COVID-19 baseline

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

The delay in reopening is likely to significantly impact certain sectors of the economy. The Night Time Industries Association said that 54% of businesses it surveyed had ordered stock, 73% had called in staff and 60% had sold tickets for the planned reopening date. Business groups have called on the Government to rethink the rolling back of business support measures. For example, John Dickie, head of London First, said that "if they are going to delay, the critical thing is to extend help to business in areas currently hamstrung by the rules". At the moment however employers are expected to begin paying 10% of any furloughed staff's salary from 1 July and business rates relief is set to taper to 66%. In contrast, the mortarium on commercial rent evictions, which was due to end this month, was extended by the government to March 2022.

London's labour market lags the UK's

April 2021 saw a fall in the unemployment rate in London according to ONS data. The unemployment rate stood at 6.5% in the three months to April down 0.7pp on the previous quarter but still up 1.5pp on the year. However, unemployment in the capital remains higher than the UK average, which stood at 4.7%. Other labour market indicators also show the ongoing impact of the pandemic on the capital. Thus, despite a sharp increase in May, payrolled employees living in London was still down by 180,600 or 4.3% since March 2020. This compares to a 1.7% decline across the UK. Looking at London's performance on the year payrolled employees living in London remains 1.7% below their May 2020 levels, a fall of 70,500 employees. This compares to a 0.5% rise across the UK. This decline in payrolled employees was also seen in all parts of the capital (Figure 3).

Figure 3: Payrolled employees, change on previous year by NUTS2 region
Latest data for period May 2021

Source: HM Revenue and Customs – Pay As You Earn Real Time Information. Note: estimates are based on where employees live

Concerns about rising global inflation

With significant government support for economies continuing in many countries, concerns have been raised about the impact this may have on inflation. Thus, although still relatively low by long-term historical standards, inflation was on the rise according to the June data from the UK, the Eurozone and the US. Inflation in the UK reached 2.1% in May, above the Bank of England's central symmetrical target of 2%, and up from 1.5% in April. This is the highest annual inflation rate since July 2019. Commenting on the causes of the rise in inflation the ONS noted that "rising prices for clothing, motor fuel, recreational goods (particularly games and recording media), and meals and drinks consumed out resulted in the largest upward contributions to the change". In the Eurozone inflation hit 2% in May, up from 1.6% in April and the first time it has surpassed the European Central Bank's target in over two years. The US has also seen rising prices with the consumer price index reaching 5% in May, up from 4.2% in April. And US core inflation (which removes volatile items such as energy prices) hit 3.8% in May, the highest level since 1992. Despite this pattern of rising prices most commentators regard these inflation spikes as temporary effects caused by supply bottlenecks, pent up demand and rising commodity prices.

UK and London still face a challenging economic environment

While the global economy is showing promising signs of growth, the UK and London economies continue to face a number of challenges. One of these is ongoing lack of tourists and visitors. In its latest forecasts, VisitBritain expects tourism expenditure at a national level in 2021 to be around half the pre-pandemic levels. Specifically, domestic spend is expected to be £51.4bn in 2021, down from £91.6bn in 2019, while international spend is expected to be just £6.2bn compared with £28.4bn in 2019. Meanwhile, there are signs of problems in the office market with Workspace saying that its average rent per square foot in London had fallen by 13% in the year to 31 March.

Elsewhere the impacts of Brexit are still being measured with research by Aston University finding that service exports between 2016 and 2019 were cumulatively £113bn lower than they would have been without the vote. There has also been growing tensions over the Northern Ireland protocol of the withdrawal agreement which has led to mounting concerns of the possibility of a trade war breaking out between the UK and EU. The government did announce in June the first trade deal to be negotiated from scratch post Brexit with Australia. However, the impacts on the economy are estimated by the government to only add up to 0.02% to UK GDP in 15 years.

There has also been signs of labour shortages in certain sectors of the economy such as hospitality and retail as the economy reopens from lockdown. Commenting on the shortage of workers seen by some firms Kate Nicholls, chief executive of UK Hospitality, said that the shortage even during a time of relatively higher unemployment was due to "the wrong workers in the wrong place at the wrong time". While in relation to the retail sector Tamara Hill, employment policy adviser at the British Retail Consortium, said that "this shortfall has been impacted by barriers within the UK's new immigration rules and a restricted apprenticeship levy that does not address the skills that are currently scarce".

On a more positive note, the third Smart Centres Index from Z/Yen which 'rates the innovation and technology offerings of leading commercial and financial centres across the world' placed London in first place ahead of New York. The report also noted "the cluster of innovation activity between London, Oxford, and Cambridge, sometimes called the 'Golden Triangle'".

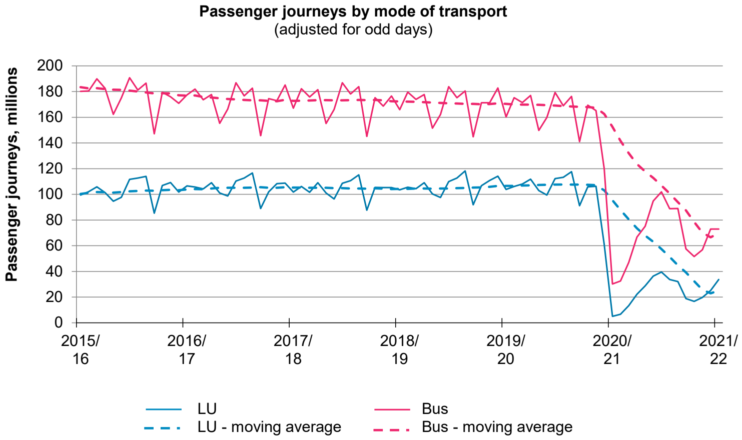
Finally, the Waterloo and City line, which had closed during the pandemic to free up tube drivers and due to limited demand, reopened again in June indicating the pickup in commuters into the City. Thus, although there remain a number of challenges for London there are also some more positive signs. We will continue to examine impacts and recovery from the COVID-19 crisis in our research, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport recover gradually from a low base

- 106.7 million passenger journeys were registered between 1 April and 1 May 2021, 8.7 million journeys more than in the previous period (7– 31 March). This is during the continued easing of the third lockdown.
- In the latest period, 33.8 million of all journeys were underground journeys and 72.9 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 89.5 in the previous period to 95.0 in the latest period.

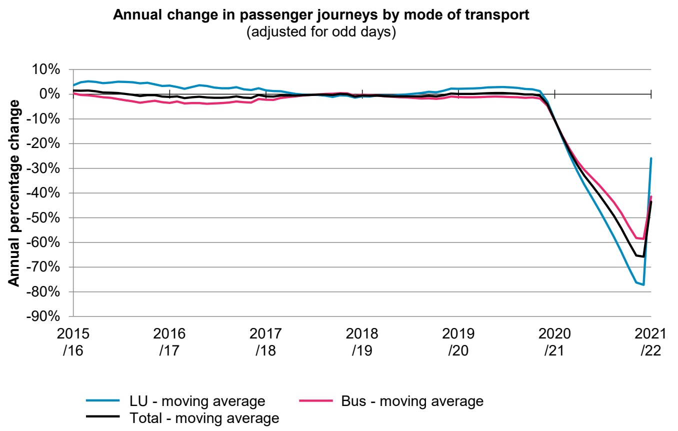
Source: Transport for London
Latest release: June 2021, Next release: July 2021



The dramatic fall in the moving average annual change in passenger journeys in London has reversed

- The 13-period moving average annual growth rate in the total number of passenger journeys was -43.5% in the period 1 April - 1 May, up from -65.8% in the period 7 – 31 March, an historic low.
- The moving average annual growth rate of bus journeys increased from -58.6% to -41.5% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from -77.2% to -25.9% between those periods.

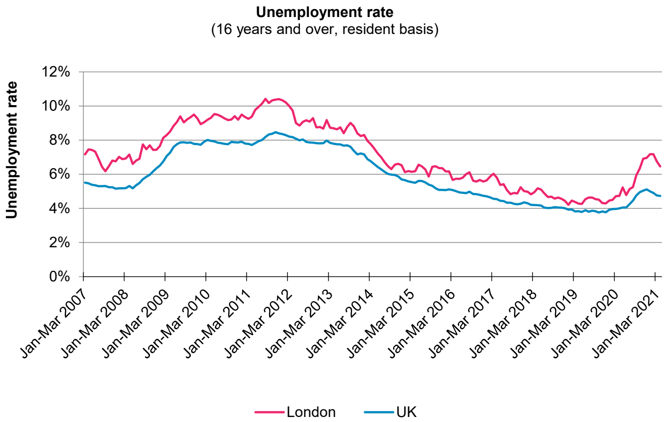
Source: Transport for London
Latest release: June 2021, Next release: July 2021



London's unemployment rate fell slightly to 6.5% in the quarter to April 2021, although it remains near the highest rate in six years

- Around 330,000 residents 16 years and over were unemployed in London in February - April 2021.
- The unemployment rate in London was 6.5% in that period, down from 7.2% in the previous quarter, November – January 2021, and representing one of the highest rates in seven years.
- The UK's unemployment rate also decreased, from 5.0% in November - January to 4.7% in February - April.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

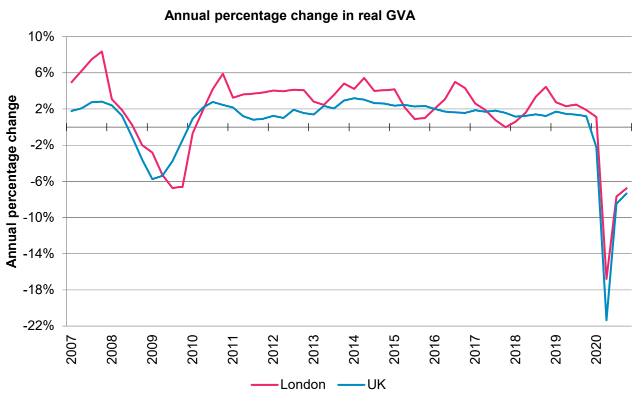
Source: ONS Labour Force Survey
Latest release: June 2021, Next release: July 2021



London's economy is estimated to have contracted by -6.8% in the year to Q4 2020

- London's real GVA grew by 1.3% in Q4 - compared with Q3 - after growth of 13.3% in the previous quarter. This has not been sufficient to offset the decline of 17.2% in the second quarter.
- London's real GVA in Q4 2020 remained 6.8% below its pre-crisis level in Q4 2019.
- The UK's real GVA quarterly growth rate for Q4 2020 was 1.3% after a fall of 19.5% in the second quarter and a recovery of 16.9% in the third quarter. Overall UK GVA in Q4 remained 7.3% below its pre-crisis level in Q4 2019.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the most recent quarter 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.

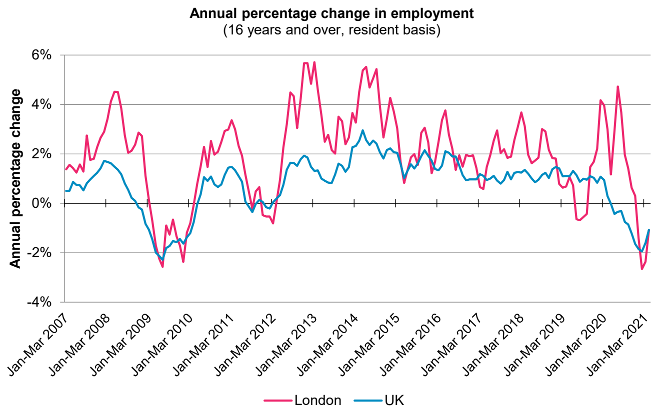
Source: ONS and GLA Economics calculations
Latest release: June 2021, Next release: July 2021



London's annual employment growth rate fell by -1.1% in the quarter to April 2021

- Around 4.76 million London residents over 16 years old were in employment during the three-month period of February - April 2021.
- The rate of employment growth in the capital was -1.1% in the year to this quarter, and the lowest rate, other than those of earlier this year, since the beginning of 2010. It is 0.3 percentage points down from November – January 2021.
- The decline in the UK's employment annual growth rate was -1.1% in the most recent quarter, and -1.9% in the previous quarter. Again, it is the lowest rate, other than those of earlier this year, since the beginning of 2010.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

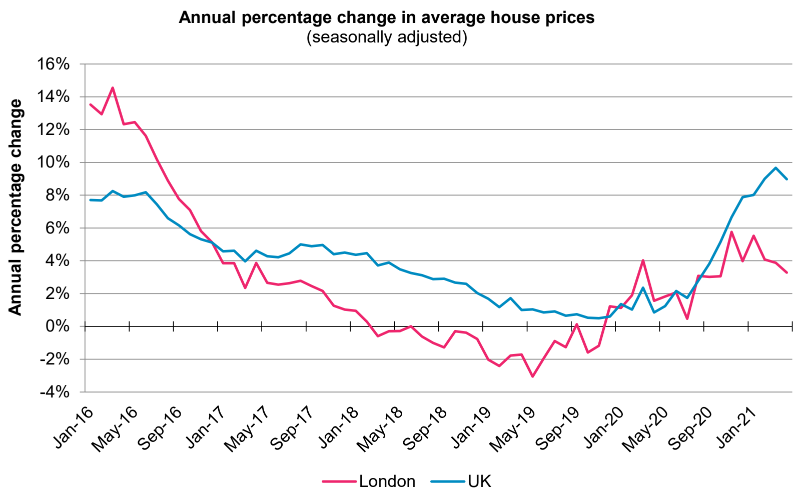
Source: ONS Labour Force Survey
Latest release: June 2021, Next release: July 2021



House prices year-on-year continue to rise in London

- In April 2021, the average house price in London was £492,000 while for the UK it was £250,000.
- The annual growth rate in average house prices in the capital was 3.3% in April, down on March (3.9%).
- Average house prices in the UK rose by 9.0% in annual terms in April, 0.7 percentage points below the same rate in March.
- The stamp duty holiday may be a contributory factor to rising house prices.

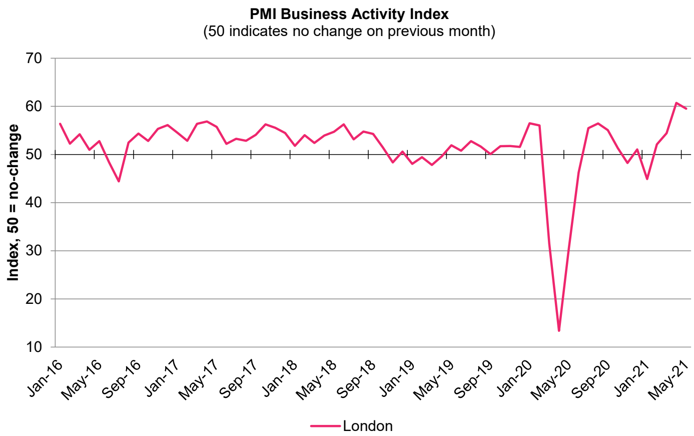
Source: Land Registry and ONS
Latest release: June 2021, Next release: July 2021



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

- The business activity PMI index for London private firms fell slightly to 59.5 in May from 60.7 in April. It is near its highest level for six years.
- 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.

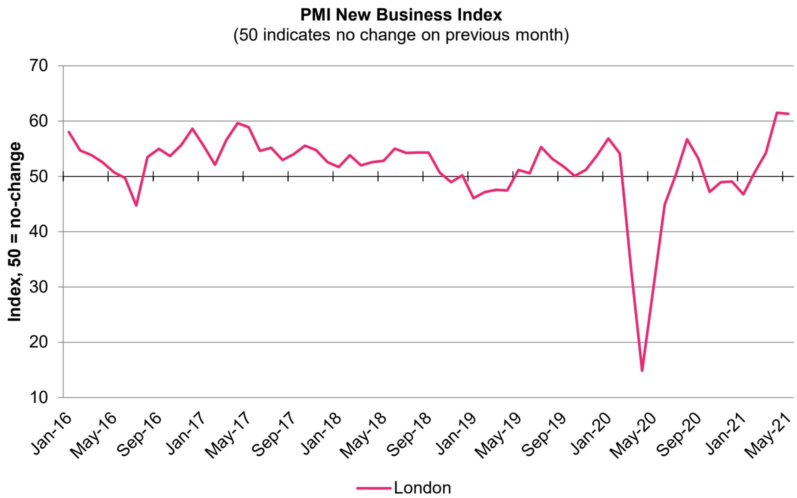
Source: IHS Markit for NatWest
Latest release: June 2021, Next release: July 2021



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

- The PMI new business index in London steadied at 61.3 in May compared with 61.5 in April. The four months from February onwards are the first time there has been positive sentiment since September. The index is nearly at its highest level for six years.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

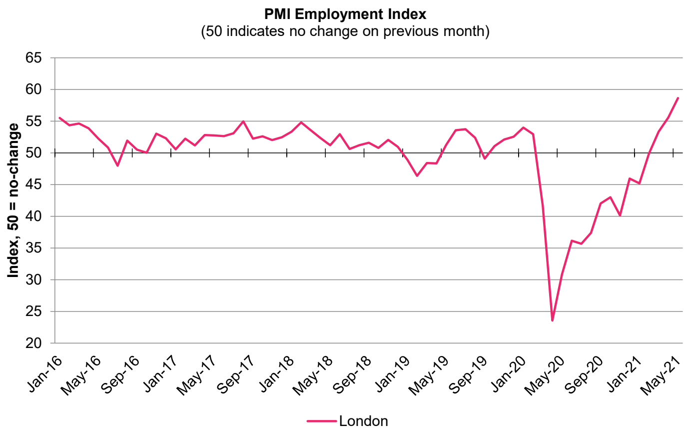
Source: IHS Markit for NatWest
Latest release: June 2021, Next release: July 2021



In May, the sentiment of the PMI employment index in London remained positive and was improving

- The Employment Index for London rose from 55.6 in April to 58.6 in May. Previously, the last time sentiment was positive was in February 2020. The index is at its highest level since 2000.
- 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.

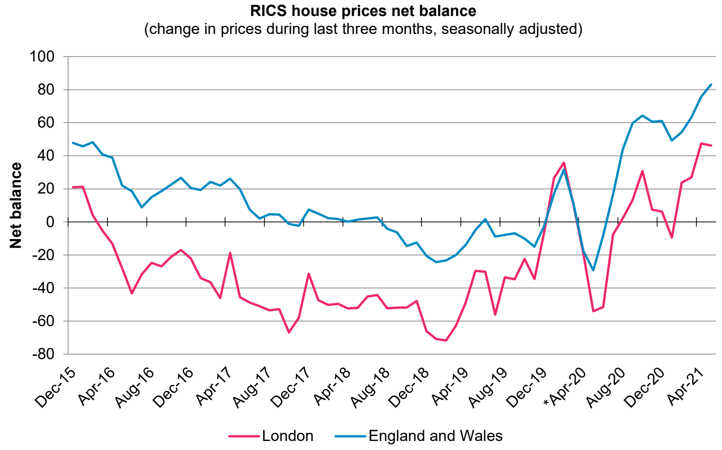
Source: IHS Markit for NatWest
Latest release: June 2021, Next release: July 2021



The net balance of property surveyors reported a rise in house prices in London in May

- In the three months to May, the net balance of property surveyors reporting a rise in house prices was 46, on a par with 47 in April.
- For England and Wales, the RICS house prices net balance index rose in May to 83 from 76 in April.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

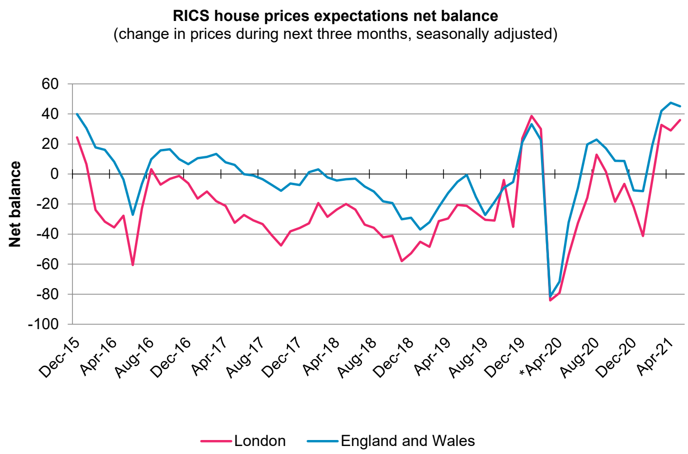
Source: Royal Institution of Chartered Surveyors
Latest release: June 2021, Next release: July 2021



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

- The net balance of house prices expectations was 36 in May in London, up on the figure for April of 29.
- Sentiment in England and Wales was 45 in May little changed from 47 in April.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

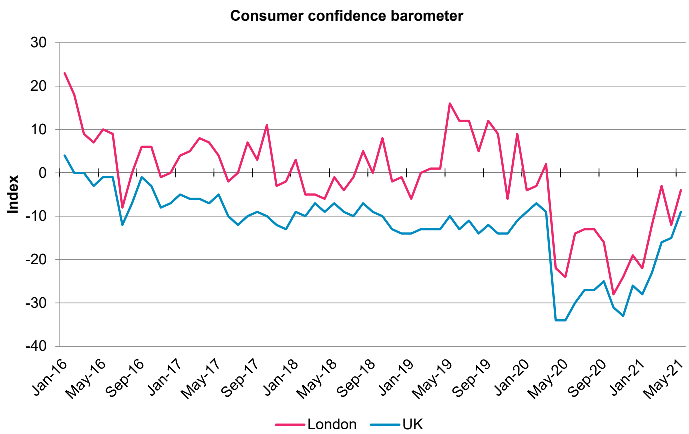
Source: Royal Institution of Chartered Surveyors
Latest release: June 2021, Next release: July 2021



Consumer confidence in London improved while remaining negative in May

- In May, the consumer confidence index in London rose to -4, from -12 in April. It is now at a level comparable with that prior to the pandemic in January 2020.
- The sentiment for the UK rose from -15 in April to -9 in May. 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: May 2021, Next release: June 2021



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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 real Gross Value Added (GVA) growth rate is forecast to be 5.4% this year due to the recovery from the COVID-19 crisis. This growth rate is expected to increase slightly to 6.9% in 2022 before moderating to 3.1% in 2023.

Download the full publication.

GLAECONOMICS

City Hall
The Queen's Walk
London SE1 2AA

Email glaeconomics@london.gov.uk
Internet www.london.gov.uk

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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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