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The omicron wave in London has begun to decline

By **Gordon Douglass**, Supervisory Economist, **James Watson**, Economist, and **Jasmine Farquharson**, Project Management Apprentice

After peaking at over 26,000 towards the end of December the seven day average of people testing positive for COVID-19 has been declining in the capital, with it dropping to around 11,000 by mid-January. Although the infection rates in London and the rest of England remain above the levels seen before the surge in infections from the Omicron variant, the Government announced that "Plan B" measures such as compulsory face masks in enclosed and crowded places and covid passes for large venues would not be renewed when they ran out yesterday, 26 January, while the advice for workers to work from home ended last week.

This announcement is likely to provide some boost to businesses which had seen a decline in confidence due to the emergence of the Omicron variant. This was shown in the Bank of England's Decision Maker Panel for December 2021, which showed that UK businesses expected sales to be 7% lower in Q1 2022 than would have been the case without the pandemic with employment expected to be 4% lower. While, in London the Q4 2021 Capital 500 survey of businesses for the London Chamber of Commerce and Industry (LCCI) found that around a third of surveyed businesses felt that the economic prospects for London would worsen. Commenting on the results Richard Burge, Chief Executive of the LCCI said the survey "shows the severity of Omicron's impact on London

Also in this issue

Datastore

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

business and business leaders' outlooks on the local and national economies. Against the period of growing optimism witnessed in the third quarter, the results of this survey are a stark reminder of the tumultuous conditions businesses are trading in".

Parts of the capital's economy also face ongoing challenges such as the hospitality sector with the estimated number of diners in London restaurants remaining below pre-pandemic levels according to OpenTable data analysed by the Office for National Statistics (ONS). Thus, on 2 January the ONS found seated diners at London restaurants stood at 91% of the level seen on the same day in 2020. This compares unfavourably to the UK as a whole which saw levels at 134% on the same period. On the other hand, London may not have seen quite as sharp a fall in retail sales as the rest of the UK, with Mastercard anonymised transaction data showing retail spending declining by around 0.6% in London compared to the national contraction of 3.1% in retail sale values. Nevertheless, other consumer-facing indicators for London also remain below pre-pandemic levels (Figure 1).

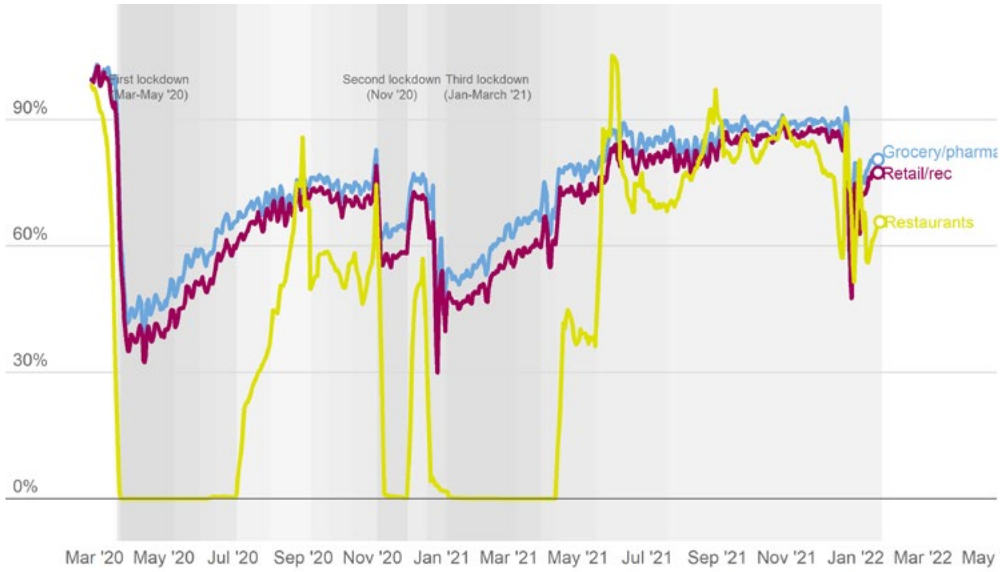


Figure 1: Individual personal activities in London, March 2020 – January 2022, relative to pre-COVID-19 baseline

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

Unemployment continues to fall in London

Data published by the ONS in January showed that unemployment in London continued to fall towards the end of last year. In the three months to November 2021 London's unemployment rate was 5.4%, a decrease of 0.4 percentage points (pp) on the previous quarter and a fall of 1.7pp from a year earlier. However, this was still above the UK unemployment rate of 4.1%, which decreased by 0.4pp on the previous quarter and a by 1.0pp on the year earlier.

Looking at more timely data on payrolled employees from HMRC's Pay As You Earn (PAYE) Real Time Information (RTI) dataset also showed an improving labour market in December. There were around 4.2 million payrolled employees living in London in December 2021, an increase of around 30,500 or 0.7% on the previous month. This was an increase of 239,000 or 6.1% on the previous year (December 2020) against a UK average increase of 4.8% (Figure 2). Relative to pre-pandemic levels (February 2020), the number of payrolled employees in London was up by 6,780 or 0.2%. This compares to an increase of 1.4% across the UK on average.

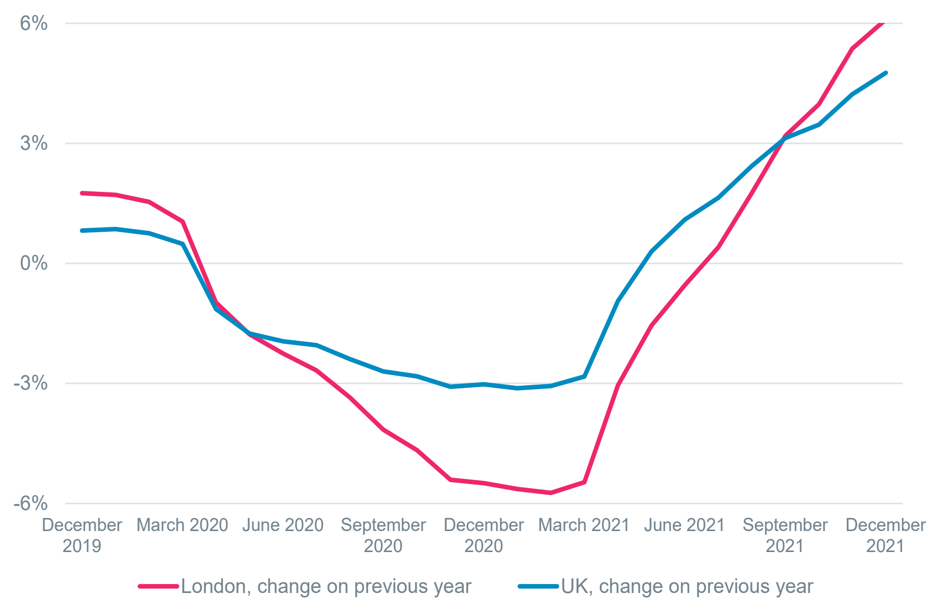


Figure 2: Change on the year of payrolled employees, London and the UK
Last data point December 2021

Source: HMRC's PAYE RTI dataset

Nationally the ONS's Business Insights and Conditions Survey showed a tight labour market particularly in certain sectors. Thus in late December "15% of businesses reported a shortage of workers, which has remained broadly stable since late October 2021" with the highest percentage being in the accommodation and food service activities industry.

UK inflation at a near 30-year high

December's inflation reached 5.4% year-on-year, the fastest price growth in nearly 30 years (since March 1992). The increase in prices was broad-based, but the largest contributions came from vehicle fuels (0.7ppts), second hand cars (0.5ppts), electricity (0.4ppts) and gas (0.3ppts); this reflects the influence of supply chain challenges and rising global energy costs.

In terms of the sharpest current price pressures, Londoners ordinarily devote a similar share of outlays to energy bills as an average UK household and spend less on owning and operating vehicles. Yet by some measures, London still faces a worse inflationary outlook. The National Institute of Economic and Social Research (NIESR) estimates of trimmed-mean inflation, which seeks to cut out the most volatile prices using a regionally collected dataset, was running at 5% year-on-year for London, compared to 4% for the UK overall. This placed London as the UK region facing the highest inflation – which has been the case in NIESR's figures since April 2021. London's inflation has at times run as much as 2.5 percentage points faster than the UK average.

There are good reasons to expect current high inflation to dissipate over time. Shipping costs and business survey gauges of backlogs have both eased, pointing to some improvement in supply chain challenges. Market signals from futures contracts point to oil and natural gas prices easing in the coming months, if gradually. However, with cost challenges having spread across the entire economy and even service price inflation above 3% year-on-year, price increases are still likely to run well above the Bank of England's 2% target for more than a year. What's more, with the Ofgem standard tariff set to increase by around £400 for the average annual gas bill in April, CPI inflation may well not peak until the spring.

The Bank of England's November 2021 projections anticipated inflation ending 2022 at 3.4% year-on-year and communications from them in December indicated that they have revised up their expectations of the April inflation peak by around 1 percentage point. As a result, February's Bank forecasts are likely to project inflation above 3% well into 2023.

UK GDP returns to pre-pandemic levels

In more positive news for the economy, the UK's output level had surpassed in November 2021 its pre-pandemic level. Thus, with the economy growing by 0.9% in November, compared to growth of 0.2% in October, it went above its February 2020 level for the first time by 0.7% (Figure 3).

Figure 3: UK GDP level, January 2019 to November 2021, Index, February 2020 = 100

Source: ONS

All major sectors of the economy grew between October and November 2021, with services output increasing by 0.7%, production by 1.0% and construction by 3.5%. The output of the services and construction sectors are now both 1.3% above their pre-pandemic levels but the production sector's output remains 2.6% below its February 2020 levels. However, within the services sector although it grew by 0.8% in November, the output in consumer-facing services are still 5.0% below their pre-pandemic levels.

IMF downgrades its global growth forecast for this year

The latest World Economic Outlook report from the International Monetary Fund (IMF) has firmly downgraded global growth in 2022 as ongoing virus disruptions, reduced fiscal and monetary stimulus, and high inflation drag on the prospects for growth. The IMF's forecasts envision global growth of 4.4% in 2022, down 0.5pp from its October projections, and 3.8% in 2023. While the 2023 figure is a 0.2pp upgrade, the IMF observed that this is largely a mechanical effect as headwinds to global growth ease in the second half of 2022.

Advanced economy inflation is projected to average 3.9% this year (up 1.6pp from October) and 2.1% in 2023 (up 0.2pp), while emerging market inflation is forecast at 5.9% and 4.7% in 2022 and 2023 respectively (up from 4.9% and 4.3%). The IMF estimates that the shocks to energy prices and supply chains last year have pushed up estimates of global core inflation by 1pp.

Across the world, the main drags on growth come from the US, whose projected 4% growth in 2022 is down from an October expectation of 5.2%, and China, where the IMF sees growth of 4.8% this year, down 0.8pp from October. The US faces reduced fiscal stimulus expectations after President Biden's Build Back Better bill ran into what may be insurmountable roadblocks, alongside high inflation leading to a much more rapid expected pace of monetary tightening from the Fed. Meanwhile China's continuing 'Zero COVID' policy may disrupt the economy as retrenchment in its property sector also drags on aggregate demand. More broadly, the IMF sees advanced economies growing an average of 3.9% this year (from 4.5% in October) and 2.6% in 2023, while emerging economies are set to average 4.8% growth in 2022 (from 5.1% in October) and 4.7% growth in 2023.

Within the wider pool of advanced economies, the UK receives a more modest downgrade to its growth prospects, with the IMF envisioning a GDP increase of 4.7% in 2022 and 2.3% in 2023. The 2022 figure is down 0.3ppts from its October projections, while the 2023 forecast receives a 0.4ppts boost. While the 2023 figure might be encouraging, the IMF's projection for Q4/Q4 growth at the end of next year is just 0.5%, pointing to limited momentum moving into the medium term.

London's tourism sector continues to face a challenging time

New analysis of visitor nights in London has recently been published. This indicated that in the final quarter of 2021 domestic and international visitor nights in London were down 40% on the equivalent quarter in 2019, while associated spend was down by 60%. Looking forward the numbers of overnight stays and associated spend is not expected to reach pre-pandemic levels until at least 2025. The boss of Heathrow airport, John Holland-Kaye, has also warned that a return to normal travel "could be years away" as data showed there was just 19.4 million passengers who passed through Heathrow in 2021, 12.3% below the 2020 number. To aid the recovery of air travel the Government has announced plans to encourage airlines to increase the number of flights they provide, with them having to use their landing slots 70% of the time from 27 March or hand them back to the airports. Currently airlines only have to use their slots 50% of the time, this compares to a pre-pandemic requirement of 80%.

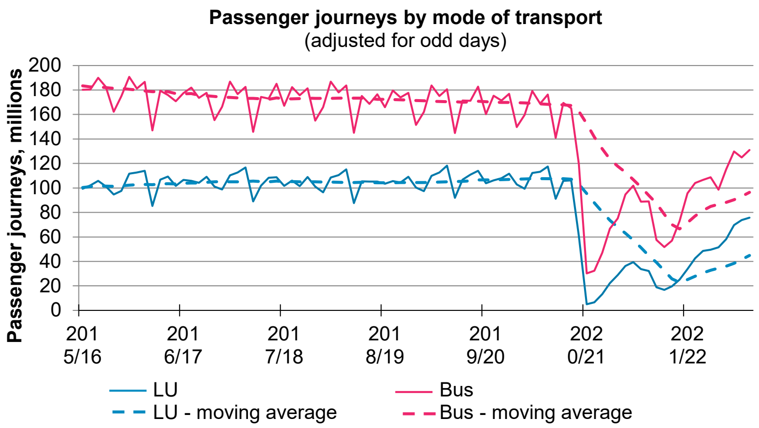
Looking at the wider impact of the pandemic the Centre for Cities has published analysis looking at the impact of the pandemic on sales on the high street. This found that between March 2020 and September 2021 London lost the equivalent of 47 weeks of sales. Still, despite these challenges it is likely that with the easing of the latest wave of COVID-19 infections, London's economy will see continued growth into the new year. GLA Economics will continue to monitor this situation over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport increased slightly going into Winter and prior to Omicron-related restrictions

- 206.8 million passenger journeys were registered between 14 November 2021 and 11 December, 8.1 million journeys more than in the previous period (17 October – 13 November 2021).
- In the latest period, 75.8 million of all journeys were underground journeys and 131.0 million were bus journeys. Numbers on both journey types increased slightly.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 134.7 in the previous period to 141.3 in the latest period.

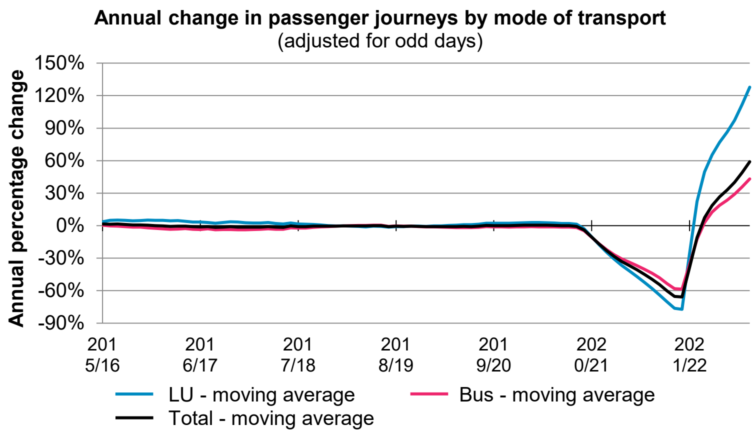
Source: Transport for London
Latest release: January 2022, Next release: February 2022



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 59.0% in the period 14 November to 11 December, up from 49.1% in the previous period, 17 October to 13 November.
- The moving average annual growth rate of bus journeys increased 35.7% to 43.2% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 111.8% to 127.8% between those periods.

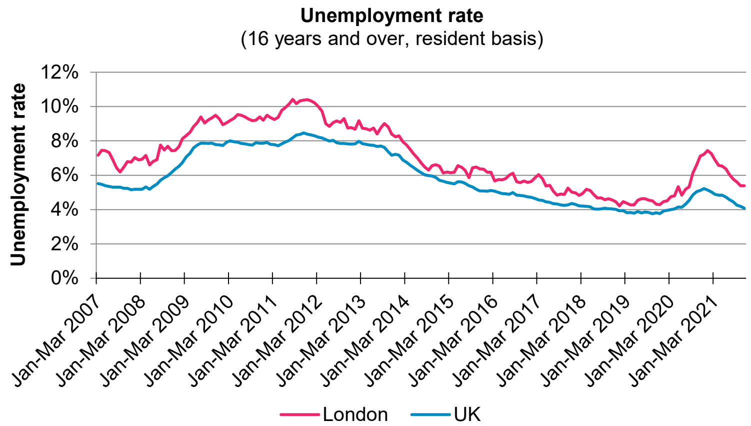
Source: Transport for London
Latest release: January 2022, Next release: February 2022



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

- Around 272,000 residents 16 years and over were unemployed in London in September - November 2021.
- The unemployment rate in London was 5.4% in that period, down from 5.8% in the previous quarter, June – August 2021, which was one of the highest rates in seven years.
- The UK's unemployment rate also decreased, from 4.5% in June – August to 4.1% in September – November 2021.

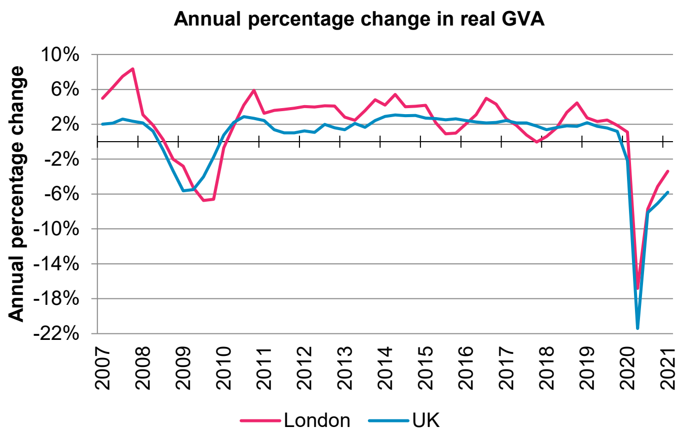
Source: ONS Labour Force Survey
Latest release: January 2022, Next release: February 2022



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.

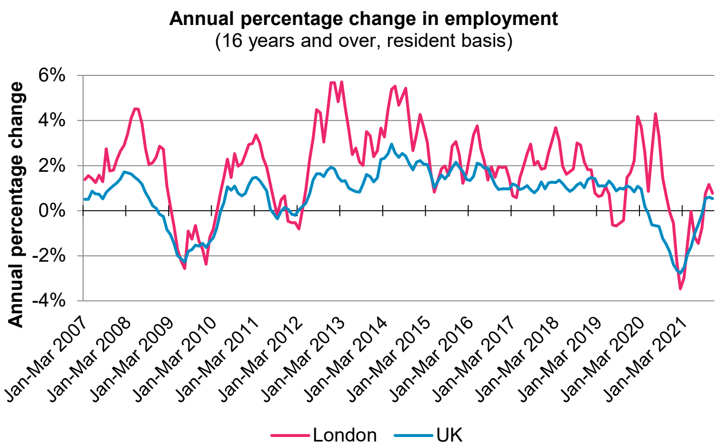
Source: ONS and GLA Economics calculations
Latest release: December 2021, Next release: February 2022



London's year-on-year employment growth rate was 0.8% higher in the quarter to November 2021

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of September –November 2021.
- The rate of employment growth in the capital was 0.8% in the year to this quarter, compared with -0.8% in the previous quarter to August 2021.
- The change in the UK's employment annual growth rate was 0.5% in the most recent quarter, and -0.2% in the previous quarter.

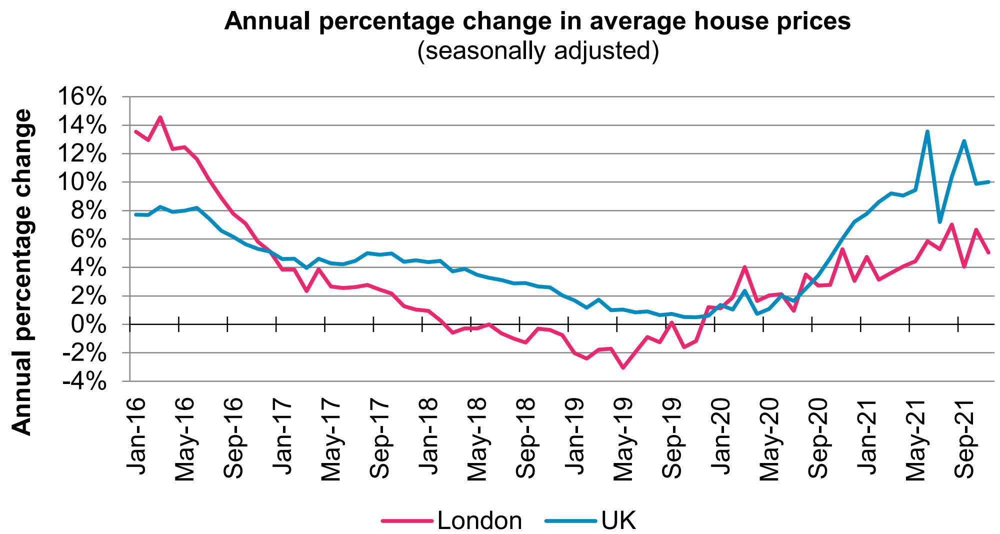
Source: ONS Labour Force Survey
Latest release: January 2022, Next release: February 2022



House prices growth in London remained positive in November

- In November 2021, the average house price in London was £520,000 while for the UK it was £268,000.
- Average house prices in London rose by 5.1% in annual terms in November, less than the October rate of 6.7%
- Average house prices in the UK rose by 10.0% in annual terms in November, close to the October rate of 9.9%.

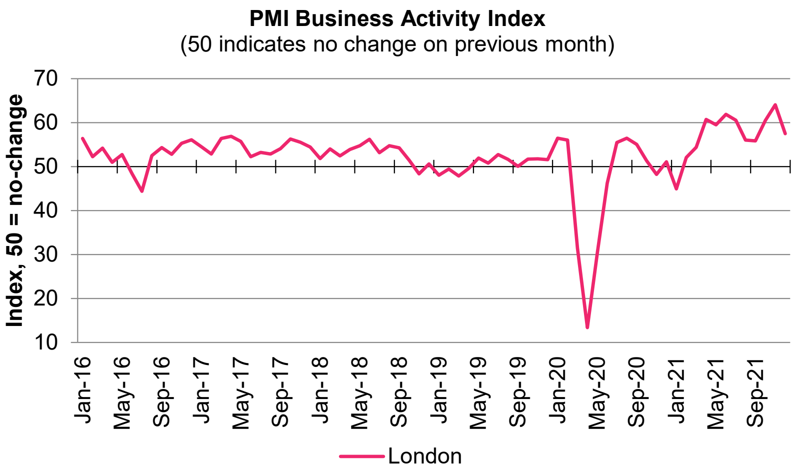
Source: Land Registry and ONS
Latest release: January 2022, Next release: February 2022



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

- The business activity PMI index for London private firms decreased from 64.1 in November to 57.5 in December.
- 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.

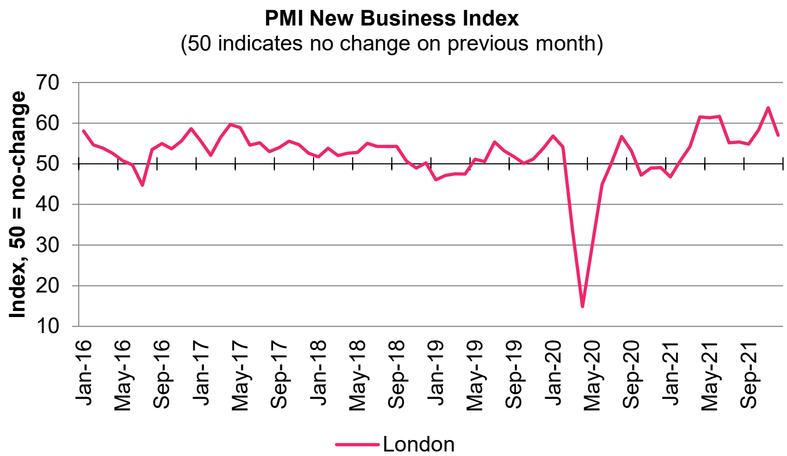
Source: IHS Markit for NatWest
Latest release: January 2022, Next release: February 2022



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

- The PMI new business index in London decreased from 63.8 in November to 57.0 in December.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

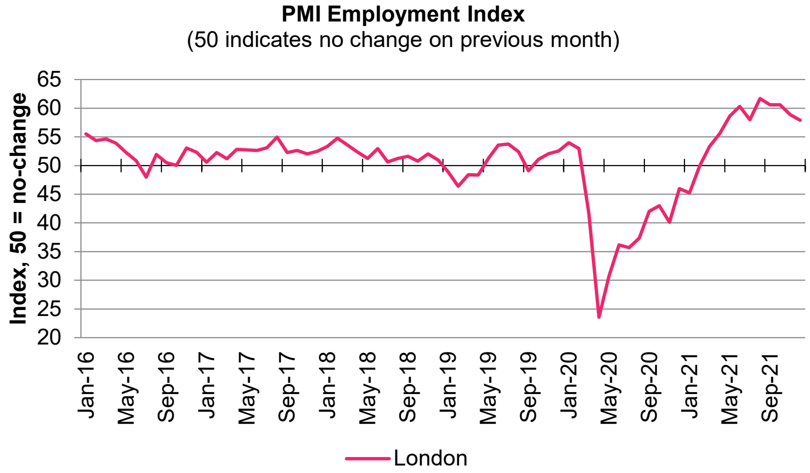
Source: IHS Markit for NatWest
Latest release: January 2022, Next release: February 2022



In December, the sentiment of the PMI employment index in London remained positive for the tenth consecutive month

- The Employment Index for London decreased slightly from 58.9 in November to 57.9 in December. 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.

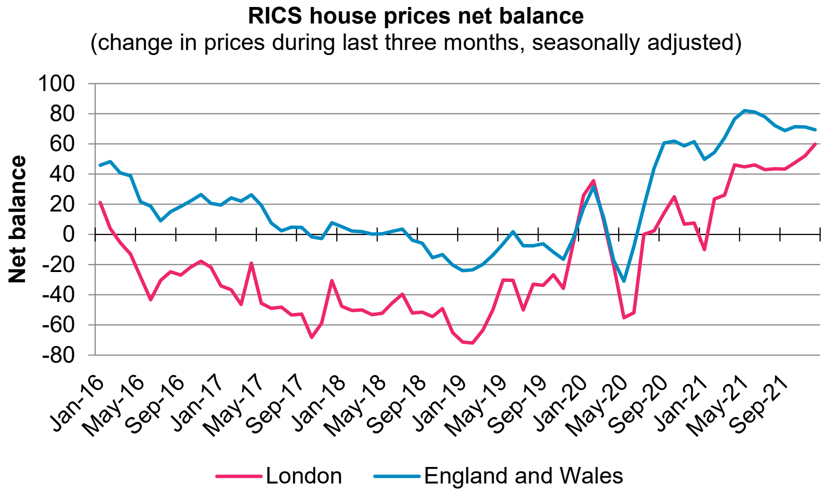
Source: IHS Markit for NatWest
Latest release: January 2022, Next release: February 2022



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

- In December, the net balance of property surveyors in London reporting a rise in house prices was 60, and in November 52.
- For England and Wales, the RICS house prices net balance index decreased slightly from 71 in November to 69 in December.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

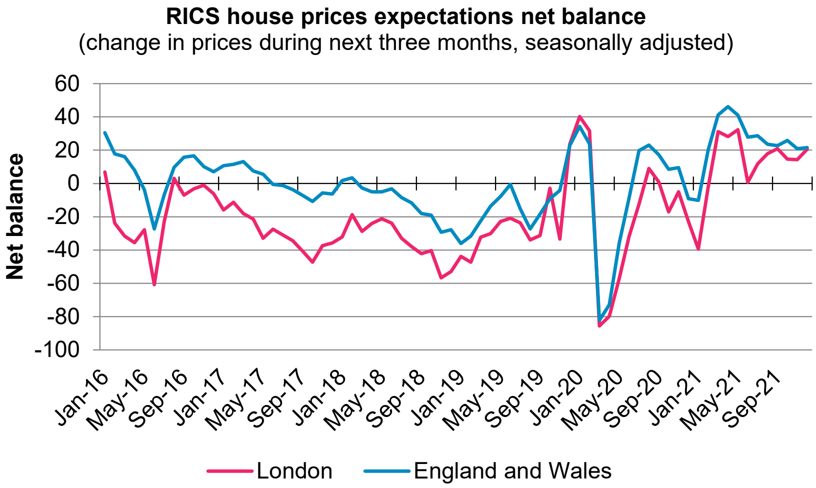
Source: Royal Institution of Chartered Surveyors
Latest release: January 2022, Next release: February 2022



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

- The net balance of house prices expectations in London was 21 in December, higher than the balance of 14 in November.
- Sentiment in England and Wales was 22 in December a small increase from 21 in November.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

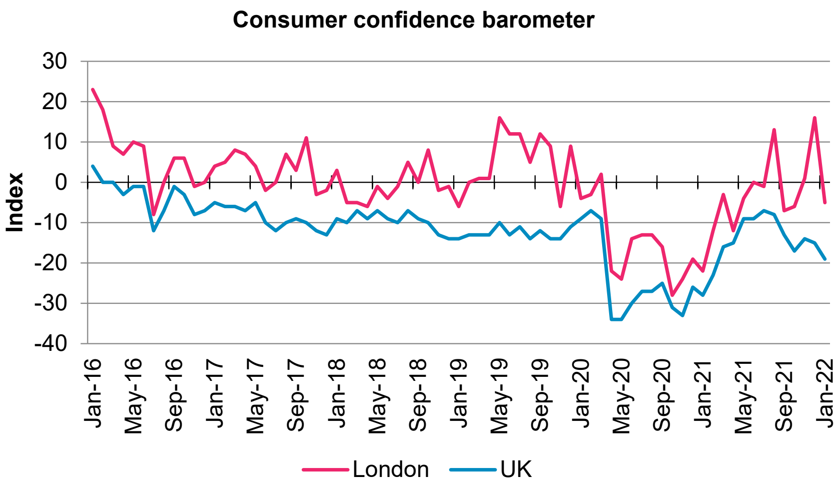
Source: Royal Institution of Chartered Surveyors
Latest release: January 2022, Next release: February 2022



Consumer confidence in London turned negative in January

- In January, the consumer confidence index in London decreased to -5, from 16 in December.
- The sentiment for the UK decreased slightly from -15 in December to -19 in January. 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: January 2022, Next release: February 2022



The economic impacts under future funding scenarios for TfL

By **Daniele Catacchio**, Economist, and **Matthew Daley**, Supervisory Economist

A joint report by Transport for London and GLA Economics sets out how reductions in service levels and capital investment could affect Londoners' welfare as a result of a shortfall in TfL's funding. The analysis details transport user disbenefits, wider economic impacts, and the monetary cost of additional CO2 emissions that would occur should TfL have to resort to a 'Managed Decline' scenario. These effects are assessed against a 'Financially Constrained' scenario, which already reflects service-level and capital investment reductions compared to the pre-pandemic policy ambitions.

Introduction

The year following the onset of the pandemic saw passenger numbers on London's public transport network fall by nearly 90%, as commuters and visitors were forced to stay at home. Successive lockdowns and reduced demand for travel decimated TfL's revenue from fares income and its financial position leading to a funding crisis. Like other rail operators, TfL needed a subsidy from government to keep services running through the pandemic. Almost two years on, passenger numbers have only partially recovered, and latest data shows how demand is still 30% below pre-pandemic levels.[1] Long-term funding solutions are needed urgently to address the shortfall, with negotiations between the Department for Transport and the Mayor of London ongoing. In accordance with its budget requirements, TfL has had to plan for a 'Managed Decline' scenario with significantly reduced service levels and capital investment. The analysis by TfL and GLA Economics assesses the economic impact of this funding scenario,[2] estimating the economic welfare loss to Londoners in the next ten years to be over £12bn in present value terms.[3]

1 Comparison of latest published data from Oct/Nov 2021 with data from Oct/Nov 2019. See the London Datastore, Public Transport Journeys by Type of Transport. More up-to-date data for TfL bus and tube journeys only shows a further decrease in demand due to the Plan B announcements – see TfL Network Oyster and Contactless card payments data.

2 See TfL and GLA Economics, The economic impacts under future funding scenarios for TfL, 13 December 2021.

3 All monetary figures are in 2019 prices, in 2021 present value, real terms, unless indicated otherwise.

The importance of transport to London's economy

London's public transport network has played a key part in underpinning its economic success over the last century and its emergence as a global city. It has helped to support 'agglomeration economies' – the productivity benefits that occur when a high number of businesses co-locate at a particular location and gain a number of advantages (such as economies of scale, lower transaction costs, skills matching, knowledge spillovers) from proximity to their suppliers, customers, labour markets and even competitors.[4] Continued investment and expansion of the network has consolidated these economic benefits whilst also facilitating economic inclusion, providing a relatively low cost means for people to access the labour market and vital public services like healthcare and education.

However, the evolution of the network has not been one of continual improvement, with periods of underinvestment and decline. Notably so in the mid-1980s when bus routes were forced into short running due to staff shortages, passengers waited in long queues to collect pasteboard tickets from coin-operated payment systems, and platforms and trains were strewn with graffiti and litter. There was no Overground, no Oyster card system, and no DLR or Jubilee line extension. This was a decade when living in London was unappealing to many with population reaching a low point having declined steadily since the 1950s.

Thirty years on, the neglected state of the network and the low esteem in which it, and by extension London, was held in the 1980s is a distant memory. The improvement in London's transport system since the 1980s, and particularly since TfL was established in 2000, has been considerable. As an illustration, between 2003/04, when London Underground was brought under TfL's control, and 2018/19, the last full financial year before the pandemic, annual passenger journeys on the tube increased by 42% from 948 million to 1,385 million. Over the same period, annual passenger journeys on London buses increased by 30% from 1,702 million to 2,220 million.[5]

Future funding scenarios

If adequate and long-term support is provided, TfL could maintain recent levels of progress on enhancements, while meeting the basic long-term need to keep assets in a stable condition. However, without it the network could once again fall into a state of decline because of the drop in travel volumes on the network compared to pre-pandemic levels. TfL has already been forced to operate within, and plan for, a 'Financially Constrained' scenario. This means it is currently unable to meet the national and regional policy ambitions set out in the Mayor's Transport Strategy, despite the deferral of major schemes such as the Bakerloo line extension and Crossrail 2 into the 2030s and 2040s respectively.

Without the provision of appropriate financial assistance, TfL will be forced to make even deeper cuts to services and capital investment, in what would amount to a 'Managed Decline' scenario. In this scenario, the considerable progress achieved would be gradually undone and TfL would be forced to retrench activities to focus almost exclusively on maintaining existing assets in a safe and operable state. Public transport users would experience an immediate impact, with an 18% reduction in bus services and a 9% reduction in London Underground services.[6] Furthermore, by severely constraining future capital investment, there would be a gradual but significant decline in the reliability of public transport services due to cancelled train fleet renewals, and deferred road infrastructure repairs leading to greater disruption and gridlock.

London would be likely to experience a car-led recovery with all the negative consequences that would entail for carbon emissions, air quality, risks to road users, congestion and other negative effects on the city's economy and quality of life. The wider economy would be impacted through reduced mobility and productivity and the deterioration of connectivity between businesses and markets.

4 See for example Graham, D. & Gibbons, S. (2018). 'Quantifying Wider Economic Impacts of Agglomeration for Transport Appraisal: Existing Evidence and Future Directions', May 2018, and Graham, D. (2007). "Agglomeration, productivity and transport investment." Journal of transport economics and policy (JTEP) 41.3: 317-343.

5 See TfL Annual Report 2003 - 2004 and the London Datastore, Public Transport Journeys by Type of Transport.

6 See TfL (2021) 'TfL Submission to the GLA Budget'.

Such effects would directly work against the need to encourage passengers to return to public transport and support a vibrant office environment in central London. This is essential not only to support the London economy and TfL's finances but also to the UK's fiscal position – with London providing an annual surplus of £36.2bn in tax revenue for the exchequer, in major part through jobs located in the Central Activity Zone.[7]

The economic impact of 'Managed Decline'

In order to estimate the economic impact of the Managed Decline scenario, the assumptions made in the funding scenarios were run through TfL's transport models with the incremental impacts of moving from 'Financially Constrained' to 'Managed Decline' estimated and then monetised. The three main impacts included in the analysis were: i) direct impacts on transport users (both business and non-business); ii) wider economic impacts including agglomeration impacts; and iii) carbon emission impacts. Each element is discussed in turn below. All the scenarios were modelled on, or adjusted on the basis of, TfL's 'Hybrid' future year demand forecast. This demand forecast accounts for long-term travel behaviour changes resulting from the pandemic, so that demand, while still growing over time, is assumed to be somewhat below pre-pandemic projections.

Direct impacts on transport users

The modelling suggests that as early as 2023, an immediate, severe reduction in service levels would take place on all public means of transport, from buses to surface and underground railways. Based on the value of time of public transport users, welfare losses to passengers due to increased waiting time would sum to £4.7bn over ten years in present value terms. The welfare loss does not take into account the potential overcrowding of services, nor the knock-on impact of increases in congestion on the highway network as a result of a shift away from sustainable modes.

Similarly, a contraction in capital investment would result in the gradual deterioration of infrastructure and delays, estimated to lead to a total welfare loss of £2.6bn to passengers by 2031. What is more, even if the 'Managed Decline' scenario were only to be pursued for a relatively short number of years, it would be extremely challenging to regain the levels of benefits provided by London's transport system today. This is because the shortfall of funding in the preceding years would create a backlog of urgent repairs, renewals and upgrades that would drive considerable additional costs and inefficiencies. Total welfare impacts on transport users due to reductions in service levels and capital investment are therefore estimated to be £7.3bn over the ten-year appraisal period in present value terms.

Wider Economic Impacts

Within welfare analysis, economic impacts are primarily captured by the estimation of user benefits or disbenefits, for example, as a result of time savings or delays. However, additional benefits (or disbenefits) will arise as the impact of transport improvements is transmitted into the wider economy. These are termed wider economic impacts and can be significant, arising in a number of ways. They include productivity gains resulting from improvements in how well businesses are connected to each other as well as potential employees, and benefits arising from structural changes as businesses and households relocate.

TfL undertook an indicative assessment of the wider economic impacts using dynamic land use interaction modelling to assess the scale of the wider impacts associated with degrading London's transport network. The resulting economic welfare loss of moving to the 'Managed Decline' scenario would total £4.5bn over ten years in present value terms, comparable to the loss from service reductions.

Carbon impacts

TfL also modelled the increases in carbon emissions that could arise from being unable to implement the decarbonisation (and other) policies in the Mayor's Transport Strategy. The 'Managed Decline' scenario will

7 ONS. 2020. Country and regional public sector finances: financial year ending 2020.

cause a nearly three-fold increase in the yearly emissions from TfL operations compared to the 'Financially Constrained' scenario in 2030, a gap deemed to widen even further in the following years. When accounting for emissions from private road transport in London, the difference in total emissions reaches nearly 10% in 2030. Following the latest government guidance,[8] a monetary value was assigned to the additional carbon emissions arising from a move from the 'Financially Constrained' scenario to 'Managed Decline'. The welfare loss of the additional carbon emissions is estimated to be £0.8bn over 20 years in present value terms, or £0.3bn when analysed over a shorter ten-year time horizon.

Total economic impacts over time

The total economic welfare impacts to London from moving from a 'Financially Constrained' to a 'Managed Decline' scenario could be over £12bn over ten years in present value terms when transport user disbenefits, wider economic impacts and carbon impacts are included. Figure A1 shows the time profile of economic welfare impacts (undiscounted) when moving from the 'Financially Constrained' to the 'Managed Decline' scenario.

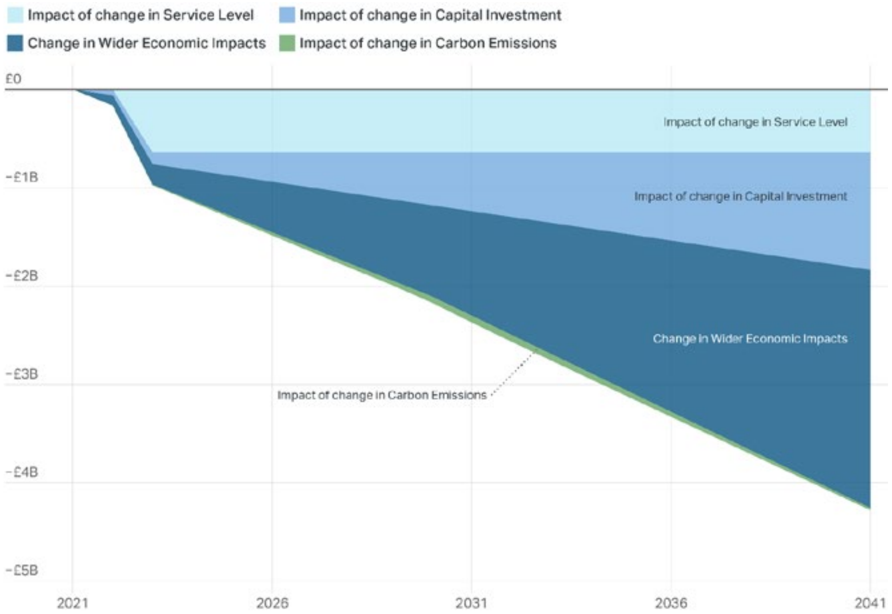


Figure A1: Stacked time profile of undiscounted impacts of moving from the 'Financially Constrained' to the 'Managed Decline' scenario by category of impacts

The immediate loss of benefits is associated with service level reductions that tend to dominate the total loss of benefits until the mid-2020s, although the other impacts ramp up quickly and by 2025 onwards the total loss of benefits from reduced capital expenditure and the (associated) loss of wider economic benefits exceeds the loss of benefits from service level reductions. By 2041, the loss of benefits from investment in capital expenditure and loss of wider economic benefits dwarf the loss from service-level reductions with an annual undiscounted impact of more than £4bn per annum.

Other impacts

The benefits of avoiding 'Managed Decline' are likely to extend beyond what is quantified in the analysis above. For example, transport investments are critical to unlocking sites for housing development and generate significant uplift in land values. Compared to a 'Financially Constrained' scenario, a 'Managed Decline' scenario would deliver 37,000 fewer homes by 2026, rising up to 105,000 by 2031 – due to lack of transport investment that could unlock sites for housing development. The reduction is associated with an indicative loss in land value uplift of £6-9bn.[9]

8 See BEIS, Valuation of greenhouse gas emissions: for policy appraisal and evaluation, 2 September 2021.

9 These figures are so large because transport is crucial to unlocking sites in London and TfL's contributions to transport improvements are often match funded by developers, leading to an oversized economic impact. Substantial potential contributions from developers and other stakeholders will be lost if TfL is unable to commit to its share of scheme funding.

Furthermore, an affordable and reliable public transport network is essential for providing disadvantaged households with connectivity and opportunities. The reduction in services resulting from the lack of appropriate funding would make the public transport network less inclusive, with the burden falling disproportionately on disadvantaged groups. The clearest example of this is in the likely impacts on the bus network. 59% overall of Londoners travelled by bus at least once a week pre-pandemic, and these figures were higher for people on low incomes and all protected characteristics (as set out in the Equality Act, such as race) for which TfL has data, except people who are disabled.[10] Buses are crucial in providing connectivity (for example children getting to school, and residents to local amenities) and capacity, particularly on thousands of links where there often isn't a rail alternative.

Under the 'Managed Decline' scenario, part of the resulting 18% service level cuts could entail the withdrawal of over 100 routes. Lower capital expenditure would directly impact the accessibility of the public transport network to disabled Londoners, 84% of whom report that their disability limits their ability to travel. TfL's work to increase the proportion of its network that can be accessed step-free would completely cease, while reduced renewals would result in a higher frequency of the lift and escalator failures that can often prevent those who depend on them from travelling at all. Reducing public transport service in a way that increases crowding beyond tolerable levels would also disproportionately affect those with disabilities or elevated vulnerability to viral infection.

Comparing total impacts and the funding requirement

The additional funding required up to the financial year 2031/32 in the 'Financially Constrained' scenario over the 'Managed Decline' scenario is estimated by TfL to be £6.9bn in present value terms. Based on this high-level analysis and over the period to 2031, economic welfare losses including wider economic impacts and carbon impacts are estimated to exceed the funding requirement by £5.2bn and the indicative Benefit-Cost Ratio is 1.75.[11]

Unless funding is restored, the disbenefits from reduced capital expenditure (and hence net losses of economic welfare) are expected to rapidly increase over a longer time horizon (as shown in Figure A1). This assessment considers only economic impacts that can be modelled at this stage, and there would be significant further benefits in areas such as housing delivery and avoiding risks to London's competitiveness, so this estimated value for money benchmark should be regarded as conservative.

A copy of the full report is available online: The economic impacts under future funding scenarios for TfL.

10 See TfL and Mayor of London, Travel in London: Understanding our diverse communities 2019.

11 The Benefit-Cost Ratio represents the value of averted losses that would result from receiving appropriate funding (ie. avoiding a 'Managed Decline') as a share of the total funding costs.

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GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

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

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