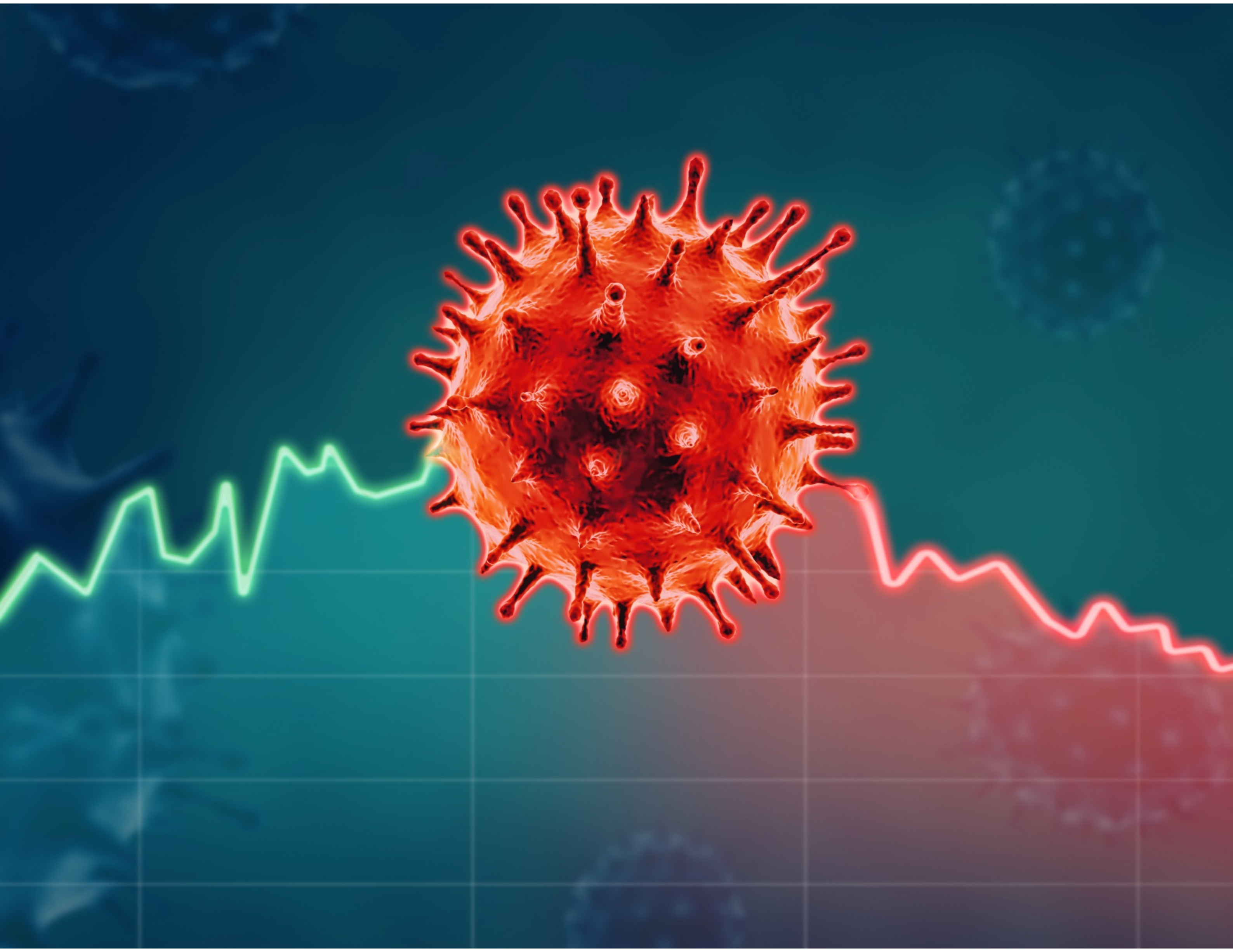
GLAECONOMICS

Forecast report

London's Economic Outlook: Spring 2020
The GLA's medium-term planning projections

June 2020



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1. Executive summary

At the time of writing the UK economy is experiencing a historic crisis resulting from the COVID-19 pandemic and the unprecedented restrictions on freedom of movement and economic activity imposed by the Government on 23 March 2020 to stop the spread of COVID-19 in the country. GLA Economics' 36th London forecast[1] is thus a scenario conditioned on both the Bank of England's COVID-19 scenario published in May[2] and the Office for Budget Responsibility's (OBR) April[3] COVID-19 scenario[4] and includes all relevant national statistics published up to the end of May 2020.This suggests that if this scenario occurred that:

- London's real Gross Value Added (GVA) growth rate could be -16.8% this year due to the present COVID-19 crisis. This growth rate is then expected to rebound to 17.2% in 2021 before returning to more normal figures in 2022 (4.5%).
- In line with GVA, London is projected, in this scenario, to see an unprecedented fall in the number of workforce jobs[5] in 2020 (-7.0% in annual terms) which will be slowly recovered through positive growth rates in 2021 (1.4%) and 2022 (4.9%).
- Similarly, London's household income and expenditure are both projected to decrease notably in 2020 before starting to grow again in 2021 and 2022.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. However, as noted above, given the unprecedented uncertainty resulting from the current COVID-19 crisis, the forecasts presented in this document should be interpreted as a projection of our reference scenario – i.e., the most likely scenario under GLA Economics' criterion conditioned on the underlying assumptions from the Bank's and OBR's scenarios for the UK economy – for London's economy in the medium-term.

[1] The forecast is based on a recently updated econometric model built by GLA Economics. For more details see 'The new GLA Economics forecast models for London's economy, GLAE Working Paper 98, June 2020'.
[2] Bank of England (2020). 'Monetary Policy Report and Interim Financial Stability Report'. May 2020.
[3] OBR (2020). 'Coronavirus reference scenario'. April 2020.
[4] It should also be noted that this scenario-based forecast also incorporated all available information for the impact of COVID-19 on the economy in Q1 and Q2 2020 that was available at the time of production.
[5] Unless stated otherwise, any reference to jobs in the main text refers to workforce jobs.

Table 1.1: Summary of economic forecasts under GLA Economics reference scenario

Annual growth rates (per cent)	2019[6]	2020	2021	2022
London GVA (constant 2016, £ billion)	4.6	-16.8	17.2	4.5
London civilian workforce jobs	2.2	-7.0	1.4	4.9
London household expenditure (constant 2016, £ billion)	1.4	-11.9	1.9	5.7
London household income (constant 2016, £ billion)	1.4	-5.5	0.8	4.5
Memo: Projected UK RPI[7] (Inflation rate)	2.6	1.7	2.0	2.5
Projected UK CPI[8] (Inflation rate)	1.7	1.1	1.5	1.7

Sources: GLA Economics' Spring 2020 forecast[9]

The COVID-19 crisis is a major negative shock unlike anything seen in at least the last 120 years. The Bank of England, in its May 2020 Monetary Policy Report, forecasted in its COVID-19 scenario that the UK's economy could contract by 30% in the second quarter of the year compared to the same quarter in 2019 and by 14% in the whole of 2020. Similarly, in its Coronavirus Reference Scenario, the OBR estimated a 35% fall in annual terms in Q2 2020 and a 13% fall over the whole year. These estimates are not outliers and go in line with a long list of other authoritative external forecasters. Employment destruction is expected to be remarkable in historic terms this year as well but due in part to the government's furloughing scheme it is not expected to be as large as the contraction in economic output. Overall, all economic agents will be hit severely by this shock, with an extra impact on public finances, household income, and household expenditure. The following industries are expected to be significantly heavily hit: Accommodation and food services, Construction, Manufacturing, Education, Arts and recreational activities, and Wholesale and retail.

The first relevant economic indicators capturing the effect of the current crisis already show the magnitude of the situation. For example, data from the Office for National Statistics (ONS) show that UK economic output fell by 2% in annual terms in the first quarter of the year, which only includes a couple of weeks of the lockdown. The ONS noted that "the decline in the first quarter largely reflects the 5.8% fall in output in March 2020, with widespread monthly declines in output across the Services, Production and Construction industries"[10]. While in April ONS data indicates that GDP may have declined by more than 20% in that month alone as the lockdown fully impacted the economy[11]. Other examples include, the volume of retail sales in April 2020 falling by a record 18.1%, the experimental Claimant Count data (a measure of unemployment) rising by 850,000 in April, CPI inflation falling from 1.5% in March to 0.8% in April, and the stock exchange falling in March by rates comparable to the 2008-09 financial crisis.

In response to the present extraordinary shock, which is affecting both aggregate demand and aggregate supply, the UK Government and the Bank of England have taken a range of unprecedented measures since March (see Box 3.1 for more detail). These aim to mitigate the adverse effects of the COVID-19 crisis this

[6] Historic data for London's real GVA – except for Q4 2019 - and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics forecasts.
[7] RPI = Retail Price Index. Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2020). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2020. Data for 2019 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics.
[8] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2020). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2020. Data for 2019 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics. Since December 2003, the Bank of England's symmetrical inflation target is annual CPI inflation at 2%.
[9] Note that this table usually includes a consensus forecast of independent forecasters. However, as most forecasters of London's economy have yet to release a post COVID-19 forecast this consensus forecast has been excluded this time as it could give a misleading picture. The usual consensus forecast chapter of London's Economic Outlook has also been excluded this time from this publication for the same reason.
[10] ONS (13 May 2020). 'GDP first quarterly estimate, UK: January to March 2020'.
[11] ONS (2020). 'GDP monthly estimate, UK', 12 June 2020.

year and boost a bounce back of the economy in 2021 and 2022. Most forecasters expect these measures to provide support to the economy – at least up to some extent – and, therefore, expect that some form of V-shaped recovery can be considered as the central macroeconomic scenario at this moment – that is, a strong growth in 2021 would mostly offset the output losses in 2020.

Looking at the London level, our initial forecasts and the available economic indicators up to the date of writing suggest that the economic situation does not differ substantially from the national one in this crisis. The unemployment rate in the capital started to rise from 4.3% in Q4 2019 to 4.7% in the first quarter of the year but as yet official statistics do not reflect the impact of the crisis. However, all PMIs – business activity, new business, and employment – have registered a historic fall between February and April, house prices expectations have plunged in March and April, and consumer confidence remained in April at its lowest level in seven years. In this context, the GLA Economics reference scenario for London sees London's output falling markedly this year but growing strongly next year before moderating somewhat in 2022. The recovery in employment is expected to be slower than in output (see Table 1.1 and Chapter 4 for more detail). In particular, the forecast is real GVA in London returning to pre-crisis levels – i.e., Q4 2019 – in Q4 2021 while workforce jobs would do in Q4 2022 (see Figure 1.3). Nevertheless, our forecast assumes that some of London's local characteristics might become a comparative advantage in this crisis. Specifically, some of London's main sectors – Financial services, Real Estate, Professional & technical activities and Information & communications activities – have been hit less severely by lockdown restrictions and have a relatively greater proportion of workers being able to work from home. However, these positive effects might be offset by other features such as the high reliance of London workers on public transport – which will be very limited for a long time – and a very negative shock in terms of tourism and international students in the capital.

The big picture described above for both London and UK economies is narrowly linked to a new - and unprecedented in size - level of uncertainty. Since our previous forecast in December 2019, both global and domestic risks have escalated rapidly on the downside compared to their already elevated previous levels. These risks are significantly related to the evolution of the COVID-19 outbreak but also to other economic and political developments.

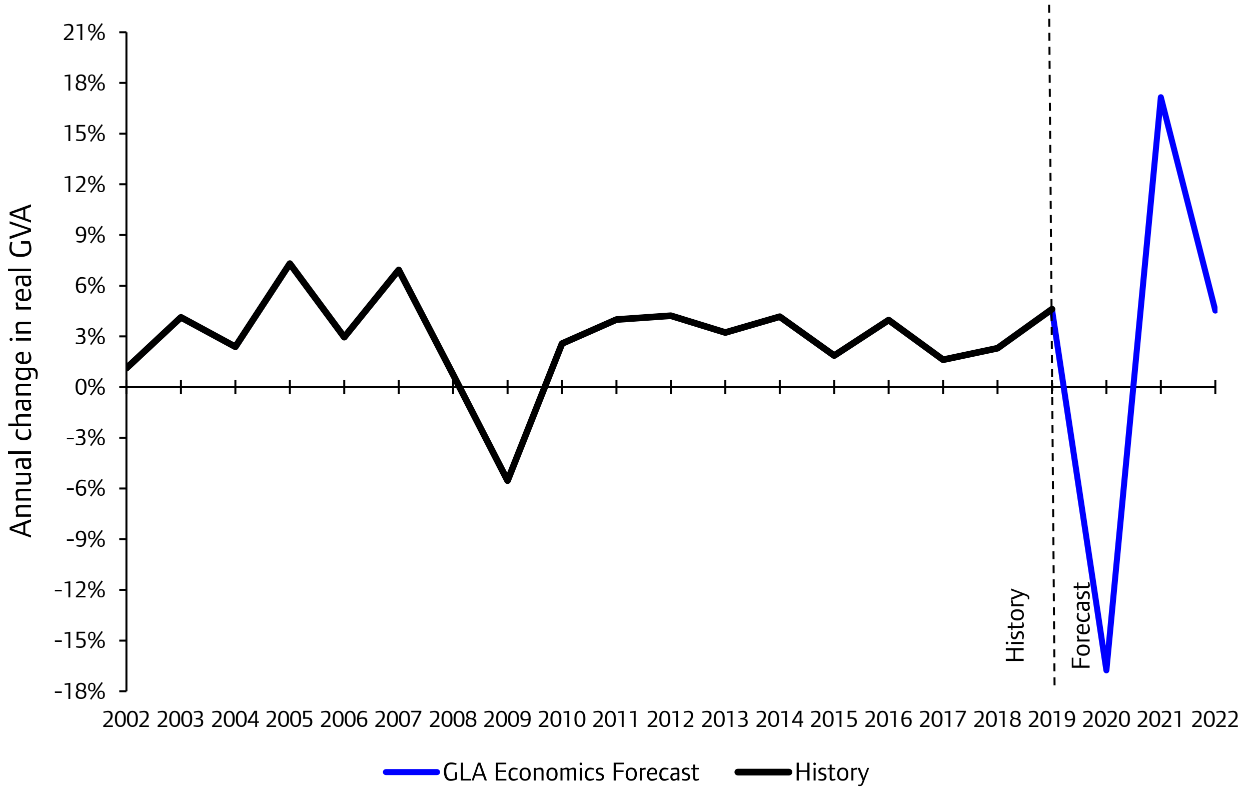
On the health crisis side, lifting existing restrictions on freedom of movement and economic activity is likely throughout this year as the spread of the virus reduces. But a second peak in infections cannot be ruled out and the actual long-term solution to the current economic shock is currently expected to rely on the development and administration of an effective vaccine against COVID-19.

Beyond this, the next greatest risk to the UK economy (and therefore to this forecast) continues to be the ongoing future trading relationship negotiations between the UK and the EU, which dampened economic sentiment before the crisis and continues to act as a drag. As the EU as a whole receives the highest amount of London exports, the UK's future relationship with the block will have a significant impact on London's economic outlook. Additionally, as a result of the EU leaving process the UK could suffer some reputational damage as a place to work and do business, which could lead to a dampening in investment and in human capital inflows.

Outside of COVID-19 and Brexit, other global risks continue with potential effects on London's economy. Firstly, a serious increase in global protectionism which could be damaging to trade flows is even more plausible in the current context. Secondly, the UK's labour productivity growth remains weak and it is not expected to improve in the medium-term due to the current crisis. Thirdly, the crisis has led to a significant rise in UK government borrowing which in turn may lead to a further round of fiscal retrenchment or the reduction of much needed investment. Fourthly, an intensification of the current regional conflicts in the world cannot be discarded within the current instability. Finally, the international economic context remains highly volatile at this moment as well. Structural problems and macroeconomic imbalances remain in the Eurozone and the COVID-19 crisis is likely to speed up the negative consequences of those issues to reappear. Meanwhile, the US is likely to reach its highest unemployment rate since at least the start of World War 2 this year, with the Federal Reserve stimulating the economy with the most expansionary monetary policy ever seen[12]. All of which indicates the size of the current crisis in the advanced economies.

In conclusion, the global economic environment has become extremely uncertain since the first quarter of 2020 in light of the COVID-19 outbreak. Most forecasters expect a historic output drop in UK output this year but a rapid bounce back in 2021, thus returning to pre-crisis levels in the medium-term. All sectors will be severely affected although Accommodation and food services, Construction, Manufacturing, Education, Arts and recreational activities, and Wholesale and retail will most likely be the most hit. For London's economy, production capacity, internal and external demand have fallen by historic levels in the second quarter of 2020 but we expect a gradual recovery in the second half of the year as lockdown restrictions ease. The effectiveness of the unprecedented fiscal and monetary policies put in place by national and international public authorities are likely to mitigate the negative economic effects of this shock. However, it can be expected that London's economy will not recover its previous 'normality' until a vaccine is found and available for everyone.

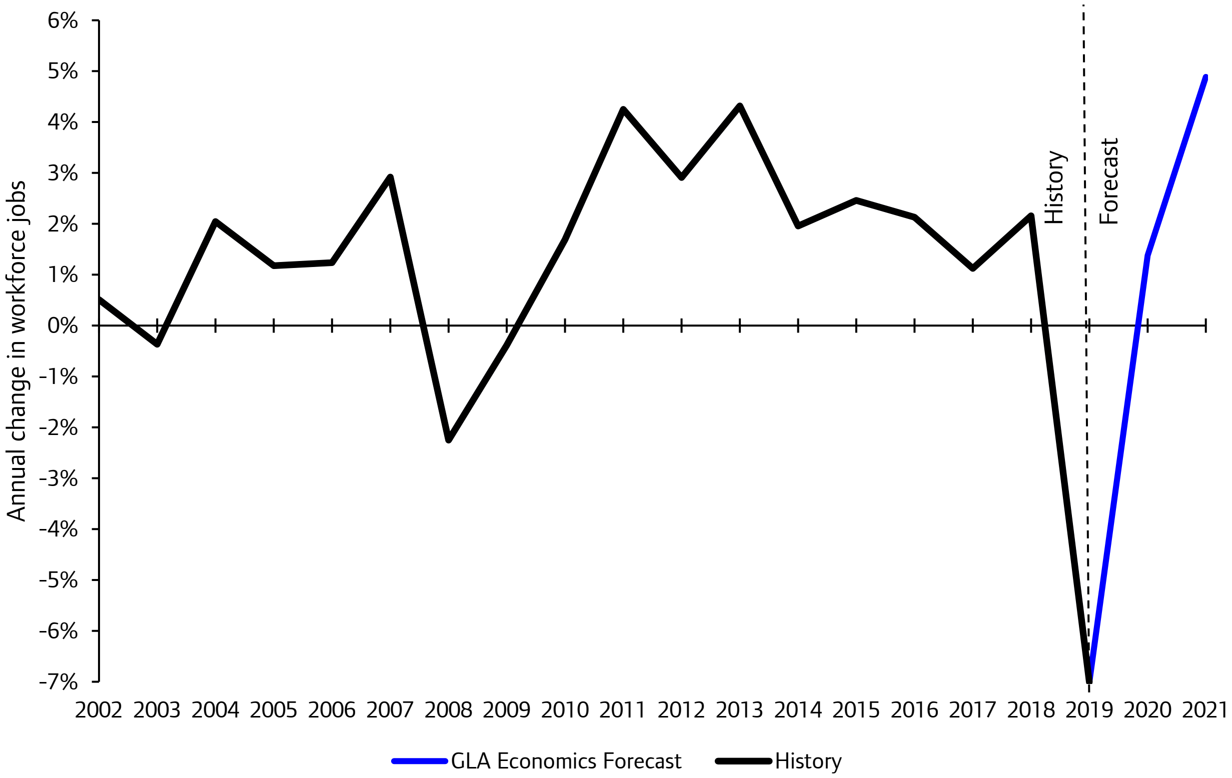
Figure 1.1: Historic and forecast output growth (GLA Economics reference scenario)[13]



Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

[12] On 28 May, the size of the FED balance sheet had already tripled when compared to the peak of the 2008-19 financial crisis.
[13] As noted, these scenario-based forecasts are constrained by UK level scenarios produced by the Bank of England and OBR as well as available relevant data for Q1 & Q2 2020.

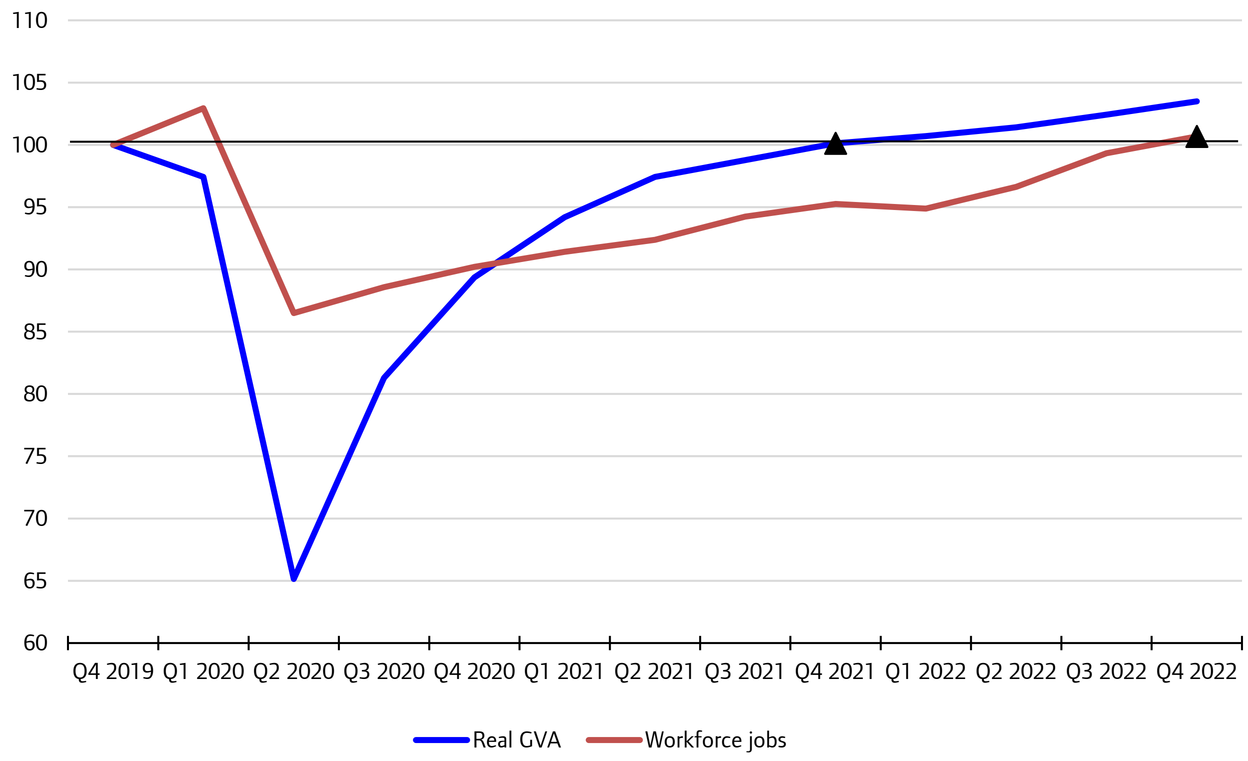
Figure 1.2: Historic and forecast employment growth (GLA Economics reference scenario)[14]



Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

[14] Ibid.

Figure 1.3: Expected shape of the economic recovery under the GLA Economics reference scenario[15] (index)



Source: GLA Economics

[15] Ibid.

2. Introduction

The spring 2020 edition of London's Economic Outlook (LEO) is GLA Economics' 36th London forecast. The forecasts are issued roughly every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of the recent economic conditions in London, the UK and the world economies and includes analysis of important events, trends and risks to short and medium-term growth (Chapter 3).
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Chapter 4).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast is based on an in-house model built by GLA Economics[16]. Before that, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics usually provides a review of independent forecasts to provide an overview of the range of alternative opinions. However, at the time of production most independent forecasters had not produced a COVID-19 consistent forecast for London, therefore in this publication this review is excluded for the sake of clarity.

Economic forecasting is not a precise science. Further these projections unlike previous GLA Economics forecasts are a scenario consistent with the Bank of England's COVID-19 scenario published in May[17] and OBR scenario published in April[18] and provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen if this scenario came to pass. There are thus significant risks, mainly on the downside, associated with this scenario.

[16] The forecast model used in this forecast has updated the model described in this publication: Douglass, G & van Lohuizen, A (2016). 'The historic performance of the GLA's medium-term economic forecast model', GLA Economics Current Issues Note 49, November 2016. A description of this new forecast model will be delivered in an upcoming GLA Economics publication. Details of this new forecast model can be found in https://www.london.gov.uk/business-and-economy-publications/new-gla-economics-forecast-models-londons-economy.
[17] Bank of England (2020). 'Monetary Policy Report and Interim Financial Stability Report'. May 2020.
[18] OBR (2020). 'Coronavirus reference scenario'. April 2020.

3. Economic background: London sees a historic decline in economic activity due to the COVID-19 pandemic

This section provides an overview of recent developments in the London, UK and world economies.

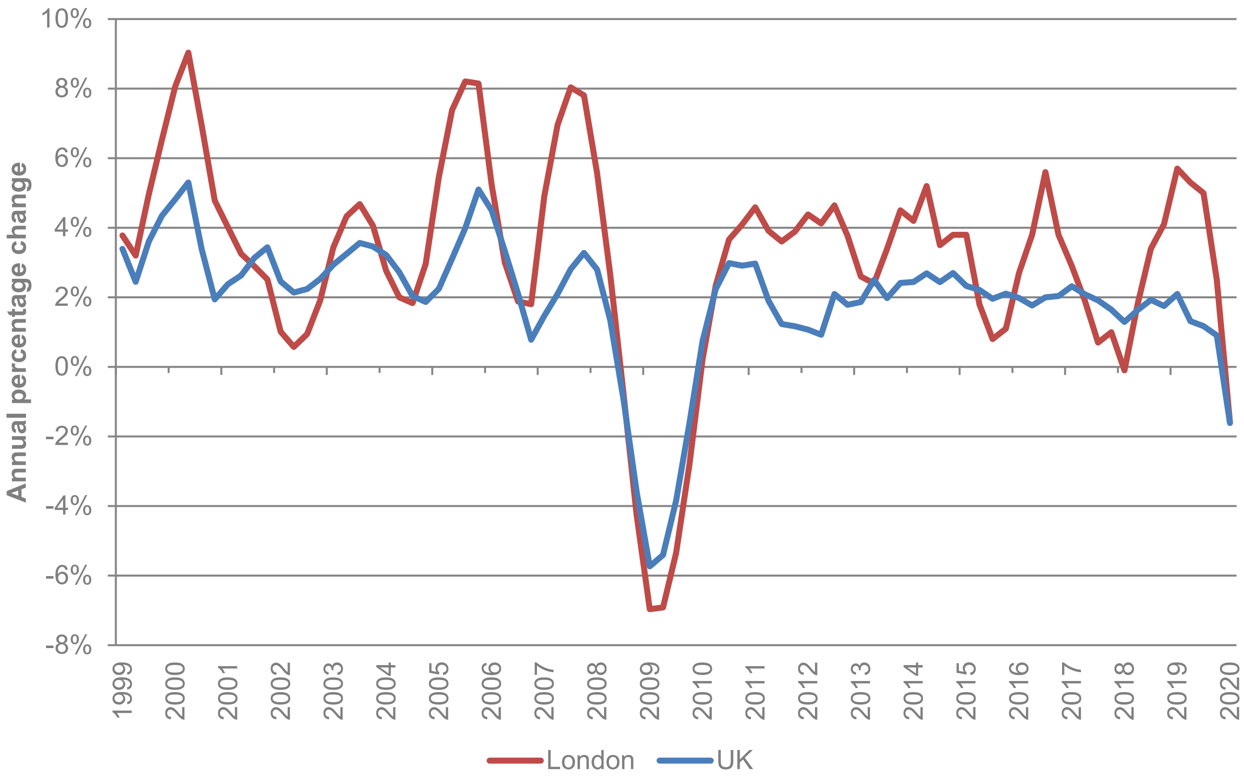
3.1 The London economy

London's economy – as measured by gross value added (GVA) – shrank by -1.6% between Q1 2019 and Q1 2020. This is when the effects of the spread of COVID-19 became apparent on the UK economy. These effects are discussed throughout this chapter, and Box 3.1 provides the policy response to COVID-19, the wider economic effects, in London and beyond, and possible longer-term effects.

The UK has previously seen generally subdued rates of real GVA growth in recent quarters. The UK also contracted by -1.6% on average in the year to Q1 2020 - down from 2.1% in the year to Q1 2019.

Comparing London and the UK more closely, the capital has generally had a slightly faster rate of annual GVA growth than the rest of the country as shown in Figure 3.1. While the two economies grew at the same annual rate in the most recent quarter, in the year to the previous quarter, Q4 2019, London grew by 2.5% and the UK grew by 0.9%. This continued the trend seen since Q1 2016.

Figure 3.1: Annual rate of GVA growth for London and the UK, constant prices
Last data point is Q1 2020



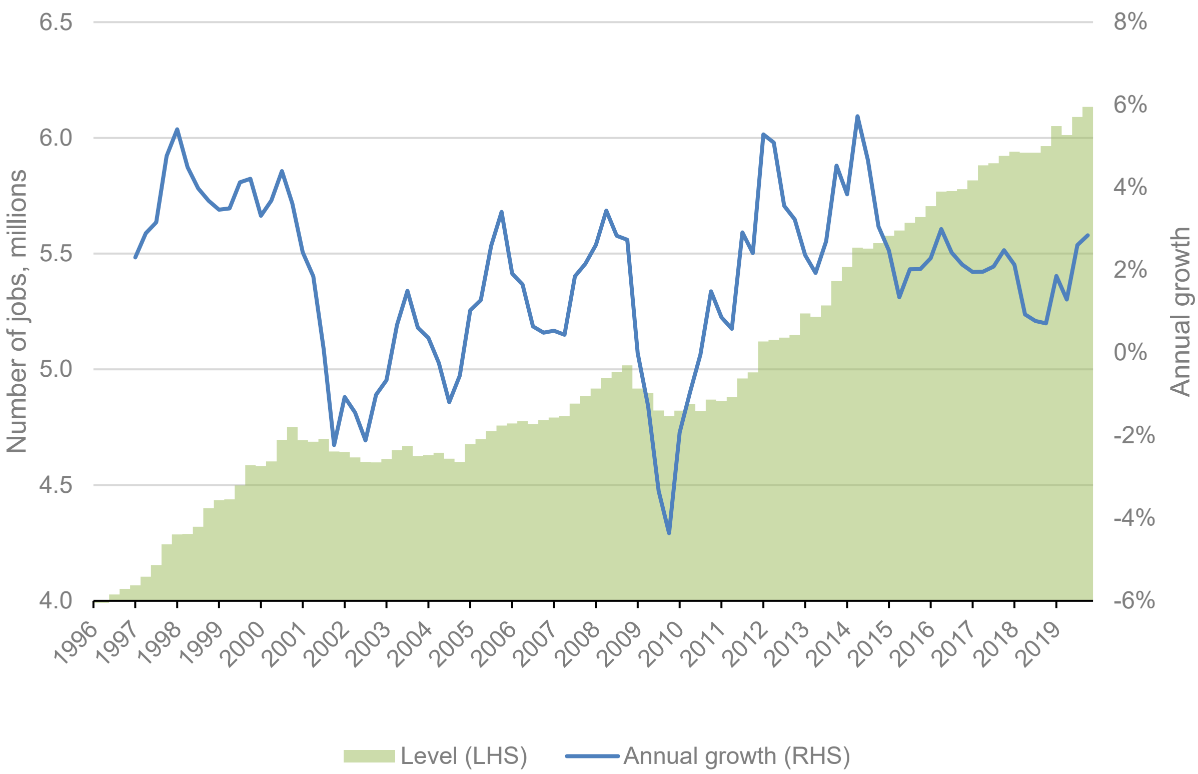
Source: ONS Regional GVA, GLA Economics

The latest data on London's labour market is for March 2020. This does not include the effects of the lockdown. London's employment rate was at its highest level (and the unemployment rate has been at one of the lowest levels) since data collection began in 1992. The employment rate shows the percentage of residents aged 16-64 who are in work and stood at 76.9% in the three months to March 2020, up 1.9

percentage points on the year. The unemployment rate shows the proportion of the 16 and over resident population who are unemployed but are wanting to work and stood at 4.7% in the three months to March, up 0.3 percentage points on a year earlier. For comparison, the UK's employment rate stood at 76.6% in the three months to March and the unemployment rate was 3.9%.

The generally strong performance of London's labour market prior to the crisis is also reflected in the number of jobs. The number of jobs in London (regardless of whether they are taken by London residents or not) grew 2.8% year-on-year in Q4 2019, the equivalent of 170,000 jobs, to reach 6.134 million (Figure 3.2). As a comparison for the most recent period, the year-on-year rate of job creation in London was significantly above the UK average up to Q4 2019 (1.5%).

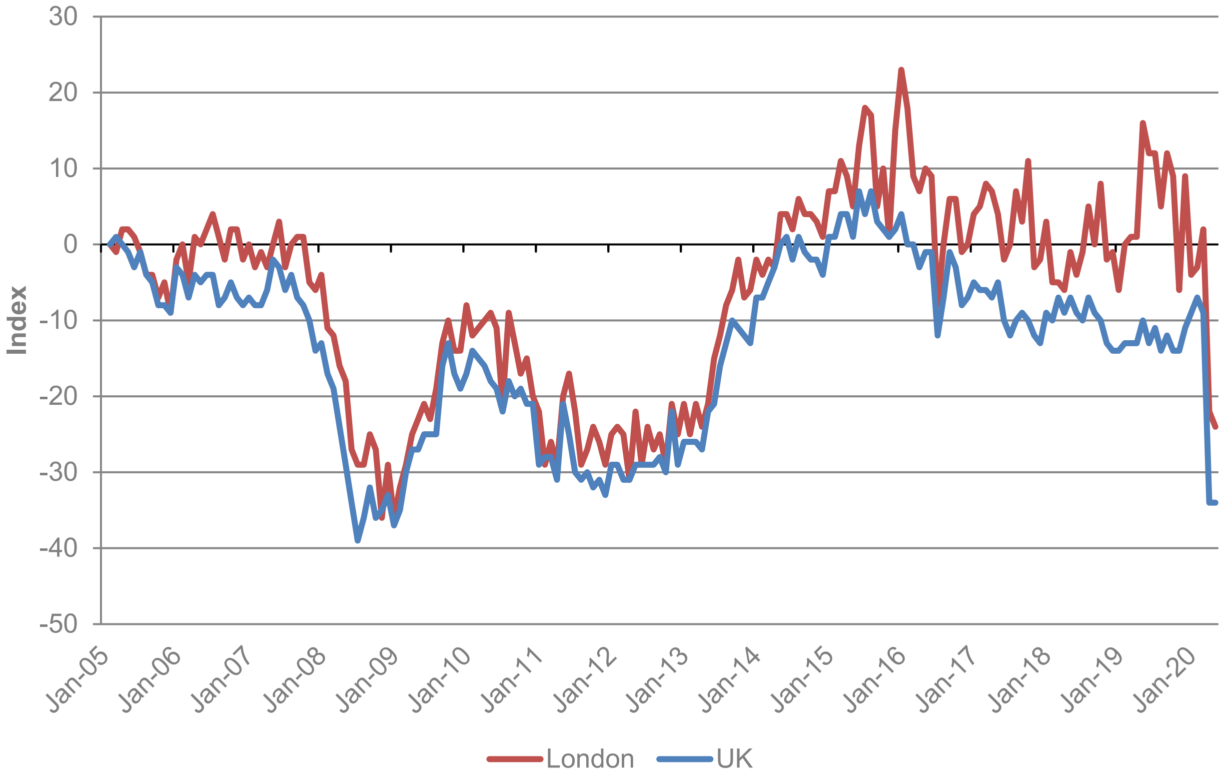
Figure 3.2: Number of workforce jobs in London
Last data point is Q4 2019



Source: ONS Workforce Jobs

London's economy is affected by increases in consumer spending, and linked to and in part driving this is consumer confidence. The introduction of the lockdown has had a profound influence on confidence. Data from GfK-NOP suggest that London consumers are very negative towards the next 12 months in terms of their household finances, the general economy and the purchasing climate (Figure 3.3). The consumer confidence data for London had remained positive for most of 2019 although it became strongly negative in April with this continuing on into May with it standing at -24 in that month. Consumer confidence in London is also significantly higher than for the UK (-34) as a whole.

Figure 3.3: Consumer confidence
Last data point is May 2020

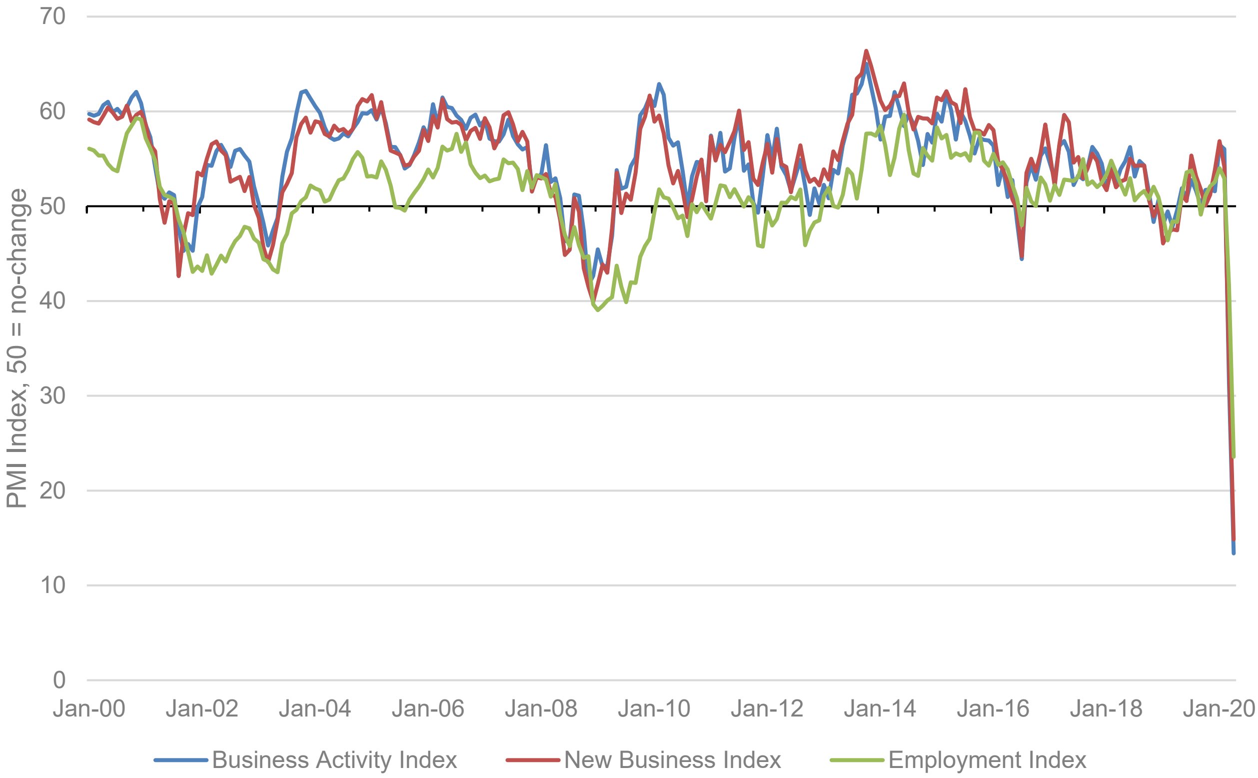


Source: GfK-NOP

Moving to businesses, the Purchasing Managers' Index (PMI) survey can show the state of overall business conditions in London[19]. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators like new work and employment. The PMI data in 2019 remained just over 50.0 indicating slightly expanding conditions. There was a slight pick-up after the general election in December, and the clarity this brought around Brexit and the transition period. After the emergence of COVID-19 there has been a marked decline in the indicators in March and April (Figure 3.4). The three indicators of business activity (13.4 in April), new business (14.9 in April), and employment (23.6 in April) are each at all-time lows.

[19] PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading is away from the 50 no-change mark, the faster the rate of growth or decline.

Figure 3.4: London PMI Business Activity, New Business and Employment Indices
Last data point for PMI is April 2020



Source: IHS Markit

Other measures of expectations for the London economy are also wary of what may happen. Thus, the London Chamber of Commerce and Industry (LCCI) Capital 500 Quarterly Economic Survey found in Q1 2020 that, "London businesses started 2020 on a worryingly soft footing, ahead of what is expected to be a widespread hit to the economy from COVID-19"[20].

Public transport use is also another indicator that can shed light on the current state of the London economy. For example, more people travelling in London could reflect more jobs i.e. they are commuting to work. Alternatively, it could reflect increased leisure activities like shopping, which could indicate an increase in household spending. Having noted this, the moving average of the annual rate of change in total passenger journeys in London had been declining over the previous two financial years but has been positive throughout 2019/20 before falling again in the final third of the year (Figure 3.5). In March and April there have been unprecedented declines in both bus and tube ridership. The figure understates the speed and depth of the decline because it provides a twelve-month moving average, and not one month's figures.

[20] London Chamber of Commerce and Industry, (2020). '[Capital 500: London Quarterly Economic Survey – Q1 2020](#)'.

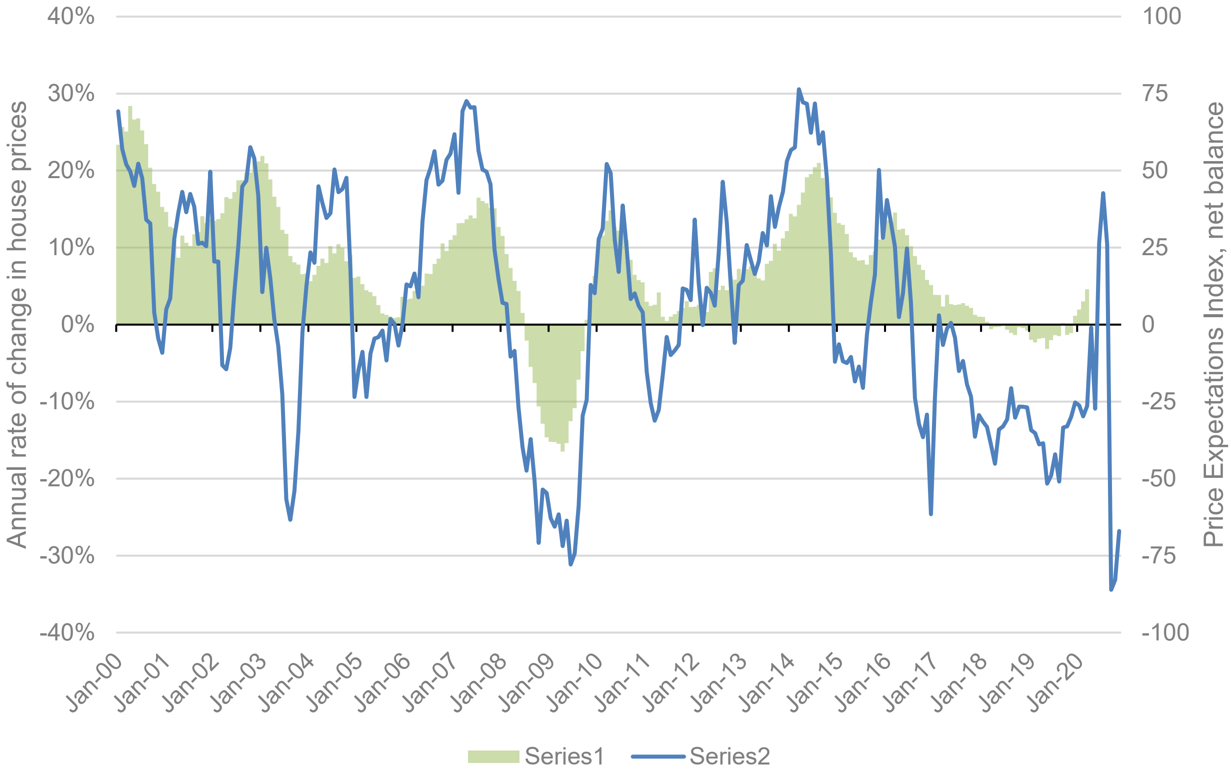
Figure 3.5: Public transport use in London

Last data point is the 32-day period ending 2 May 2020

Source: Transport for London

Finally, the moderation in prices seen in London's housing market in 2018 carried over through 2019. However, from December until March there had been a mild recovery. The average house price in London was £489,764 in March, according to data from the ONS and Land Registry. This has risen 4.6% from a year earlier. This is in line with what survey data has been signalling for some months now. For instance, property surveyors responding to the Royal Institution of Chartered Surveyors (RICS) Housing Market Survey in April had been reporting, on balance, a reduction in London's house prices from August 2016 to November 2019. After a recovery in the early part of this year, the net balance for the Price Expectations Index declined to all-time lows in March and April suggesting that there could be a return to price reductions, and possibly significant price reductions, in the coming months (Figure 3.6).

Figure 3.6: House price inflation in London and the RICS Future Expectations Index
Last data points are March 2020 for house prices and May 2020 for RICS Housing Market Survey



Source: ONS/Land Registry House Price Index, RICS

Overall, the indicators discussed above suggest that London's economy is facing a challenging environment and is shrinking rapidly in Q2 2020. It is not clear how deep the recession will be, nor how quickly the London recovery will be. This depends, in part, on the effectiveness of the public health and economic policy response. Box 3.1 below discusses this in more depth.

Box 3.1: The economic impact of the Coronavirus

GLA Economics has been reporting on the developments for the London and UK economies of COVID-19 in the last three editions of London's Economy Today (LET)[21, 22, 23]. This box provides the policy context, some of the wider economic effects not reported elsewhere in this publication, and more detail of the opinions of some other forecasters of longer-term effects.

Policy context

The first recorded case of the COVID-19 virus was reported to the World Health Organisation in December 2019, who characterised it as a pandemic on 11 March. It has travelled across the countries of the world. The first recorded case in the UK was at the end of January 2020. The Prime Minister, Boris Johnson, declared a lockdown on 20 March 2020 which closed down workplaces and shops in non-essential parts of the economy. Where possible, people were encouraged to work from home. Wide-ranging statutory restrictions on freedom of movement were placed on 23 March. On 10 May the Prime

[21] GLA Economics (2020). 'London's Economy Today - Issue 211 - March 2020'.
[22] GLA Economics (2020). 'London's Economy Today - Issue 212 - April 2020'.
[23] GLA Economics (2020). 'London's Economy Today – Issue 213 – May 2020'.

Minister announced some easings allowing more movement out of home, and specifically encouraging people to go to work where practicable and where they could not work from home.

The Chancellor of the Exchequer, Rishi Sunak, has made six announcements to alleviate the economic impacts of COVID-19. The schemes provide a safety net of support to businesses and workers, both employees and self-employed, and increased the generosity of the welfare system:

- Schemes for workers:
  - Coronavirus Job Retention Scheme to furlough employees on 80% of wages up to £2,500 a month.
  - From July firms can bring back furloughed workers on a part-time basis as long as firms meet the wages of such employees.
  - From August employers will have to pay the NICs and employer pension contributions of workers.
  - From September they will pay 10% of the furloughed wage rising to 20% in October when the scheme is due to end.
  - Self-employed Income Support Scheme - 95% of people who receive the majority of their income from self-employment will receive a cash grant covering 3-months' worth of profits worth 80% of their average earnings over the last three years up to £7,500 in total in May.
  - This scheme was extended to cover a further cash grant covering a further three-months' worth of profits at 70% up to a total of £6,570 in August.
- Government-backed loans for businesses:
  - Coronavirus Business Interruption Loan Scheme - £330bn has been set aside to guarantee up to 80% of loans to businesses.
  - Bounce-back loans of up to £50,000 for small and medium-sized businesses with a 100% government-backed guarantee (funded as part of the £330bn).
  - COVID Corporate Financing Facility provides support for the cashflow of businesses by purchasing commercial paper of up to one-year maturity.
- Grants and rate reliefs for businesses:
  - 100% business rates relief for the retail, leisure, hospitality and nursery sectors.
  - Retail, Hospitality and Leisure Business Grants Fund – an additional cash grant of up to £25,000 for those businesses in these sectors who are not insured against a pandemic.
  - Small Business Grants Fund scheme - cash grants of £10,000 for the smallest 700,000 businesses.
- Schemes to support household income:
  - An increase in the standard allowance of Universal Credit (UC) and Working Tax Credit of £20 per week, or £1,000 a year.
  - The removal of the Minimum Income Floor in UC, an assumed level of earnings for self-employed people.
  - Increased generosity in housing support for private renters.

The April supplement to LET[24] provides more detail on the schemes announced up till then. The Chancellor has also announced an additional £750m for charities.

[24] GLA Economics (2020). 'London's Economy Today - Issue 212 - April 2020'.

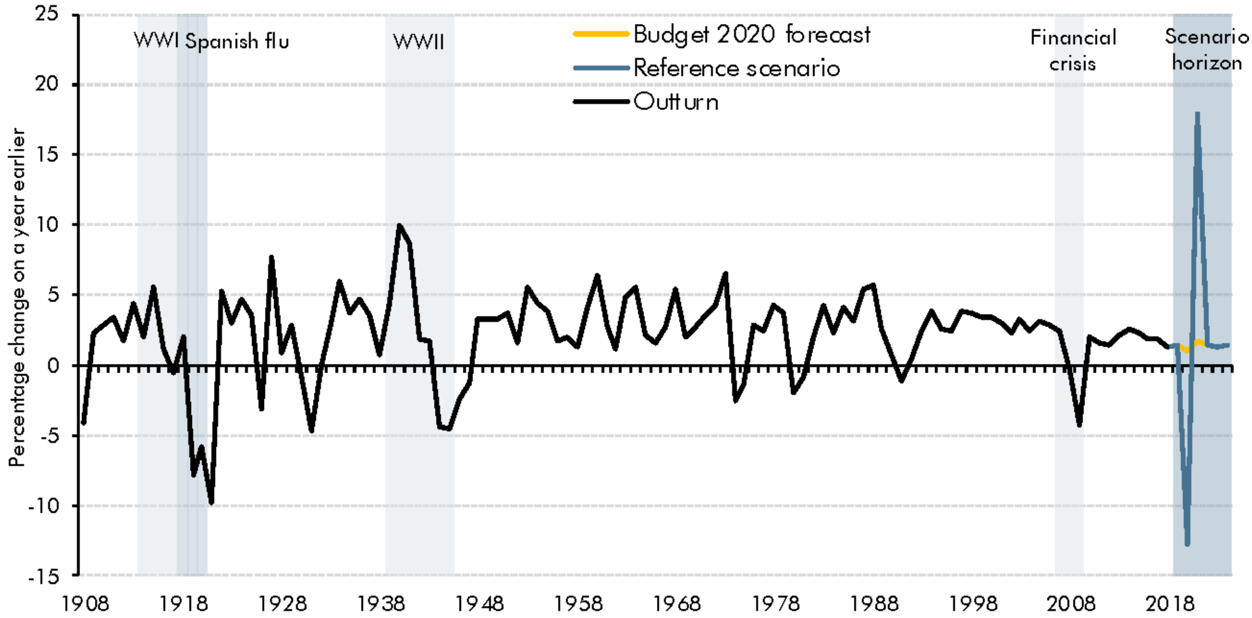
The BoE has been coordinating its actions with HM Treasury. The Bank can help address liquidity constraints by reducing the cost of finance, and making it more readily available to improve liquidity through:

- Cuts in base rates first by 50 basis points to 0.25%, and then to 0.1%.
- Increasing quantitative easing by £200m to £645m.
- The introduction of a Term Funding Scheme, with additional incentives for Small and Medium Sized Enterprises (SMEs), which could make £100bn available at close to BoE interest rates.
- A cut in the countercyclical buffer rate to 0% from 1%.

Wider economic effects of COVID-19

COVID-19 has presented a major economic shock unlike anything seen in the last 120 years and for possibly quite a lot longer. The OBR in its Coronavirus Reference Scenario estimated that the UK economy could contract by 35% in the second quarter of this year, and by 13% over the whole year if that scenario came to pass (Figure 3.7). These estimates are not out-of-line with work by other institutes and modelling for other countries discussed in the next section. The upside is that most forecasters are still expecting a strong recovery in 2021, which will fully or mostly offset the losses in 2020.

Figure 3.7: Annual UK GDP growth, 1908-2021



Source: Bank of England, ONS, OBR

The collapse in demand is already apparent in a number of indicators:

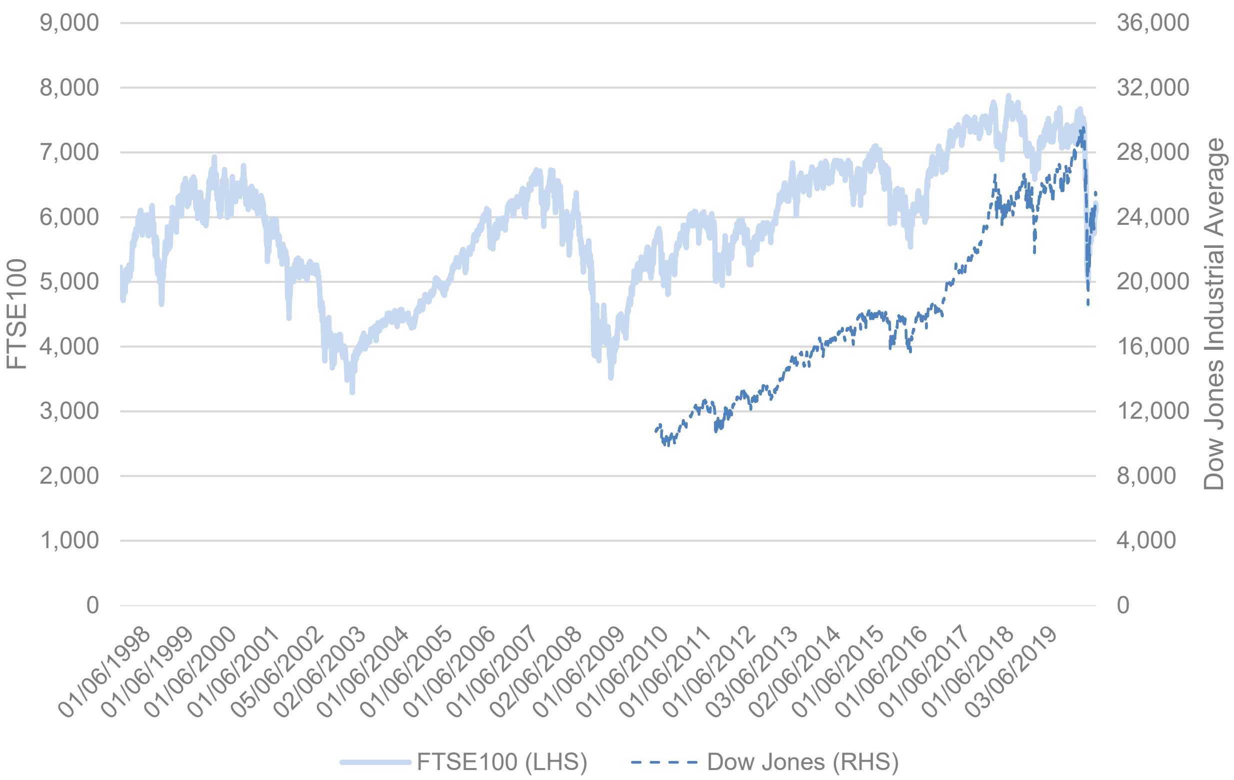
- UK GDP fell by -2.0% in 2020 Q1, by -5.8% in the month of March 2020[25] [26], and 20.4% in the month of April[27].
- The volume of retail sales in April 2020 fell by a record 18.1%, following the strong monthly fall of 5.2% in March 2020[28].

[25] ONS (2020). 'GDP monthly estimate, UK', 13 May 2020.
[26] ONS (2020). 'GDP monthly estimate, UK', 13 May 2020.
[27] ONS (2020). 'GDP monthly estimate, UK', 12 June 2020.
[28] ONS (2020). 'Retail sales, Great Britain', 22 May 2020.

- The claimant count (a measure of unemployment) rose by 850,000 in April from 1.2m to 2.1m[29].
- By 11 May the Coronavirus Job Retention Scheme had protected 7.5m jobs and 935,000 businesses[30].
- A lower CPI which fell from 1.5% in March to 0.8% in April[31]. This was primarily due to lower energy and fuel prices.

There has also been a sharp fall in share prices with stock markets seeing some of their biggest one day falls since the crash of 1987. The FTSE100 had fallen by over 33%, which is close to the fall of 39% during the 2008 recession (Figure 3.8), although it has since recovered some ground. Share prices have been falling across the world, and the Dow Jones had also fallen by over 30%. This is despite significant government intervention to stem the economic effects of the virus spreading.

Figure 3.8: FTSE100 and Dow Jones Industrial Average, October 1997-May 2020



Source: London Stock Exchange, Yahoo! Finance, and Federal Reserve Bank of St Louis

A fall in demand of this scale is likely to lead to a re-structuring of economic activity with winners, such as internet-based companies, and losers, whose viability may be threatened. One such sector may be the oil sector, after Saudi Arabia started a price war with US shale, and Russian oil. For comparison, the fall in the oil price reached at one point in April 85%, although it has since picked up to a fall of 43% by the end of May. This compares with a fall of over 70% during the 2008 recession (Figure 3.9).

[29] ONS (2020). '[Claimant Count (Experimental Statistics)]', 19 May 2020.
[30] Gov.UK (2020). '[Chancellor extends furlough scheme until October'.]
[31] ONS (2020). '[Consumer price inflation, UK']', 20 May 2020.

Figure 3.9: Brent dollar per barrel crude oil price, May 1987-May 2020

Source: Federal Reserve Bank of St Louis

The main report indicates that the infection has had a large impact on consumer confidence across the UK. There are some areas where there is likely to be a disproportionate impact on London:

- There are significant impacts for business from restrictions on the movement of people, goods and services as London is a city open to the rest of the world. In 2016 exports were 36% of London's GVA, and 31% for the UK as a whole. London has a trade surplus with the EU, and the rest of the world, while the rest of the UK has a deficit[32].
- In 2019, London was the third most visited city in the world with 19.1 million international visitors[33]. Restrictions on international travel have had an impact beyond the tourism sector on hotels, hospitality and the cultural sectors.
- A number of groups from ethnic minorities had a statistically significant raised risk of death involving COVID-19 compared with people of white ethnicity. This includes black, Bangladeshi, Pakistani, Indian, and mixed ethnicities. A part, but not all, of the difference is a result of socio-economic disadvantage and other circumstances[34]. 40% of Londoners identified as non-white in the 2011 Census, the highest proportion across UK regions.

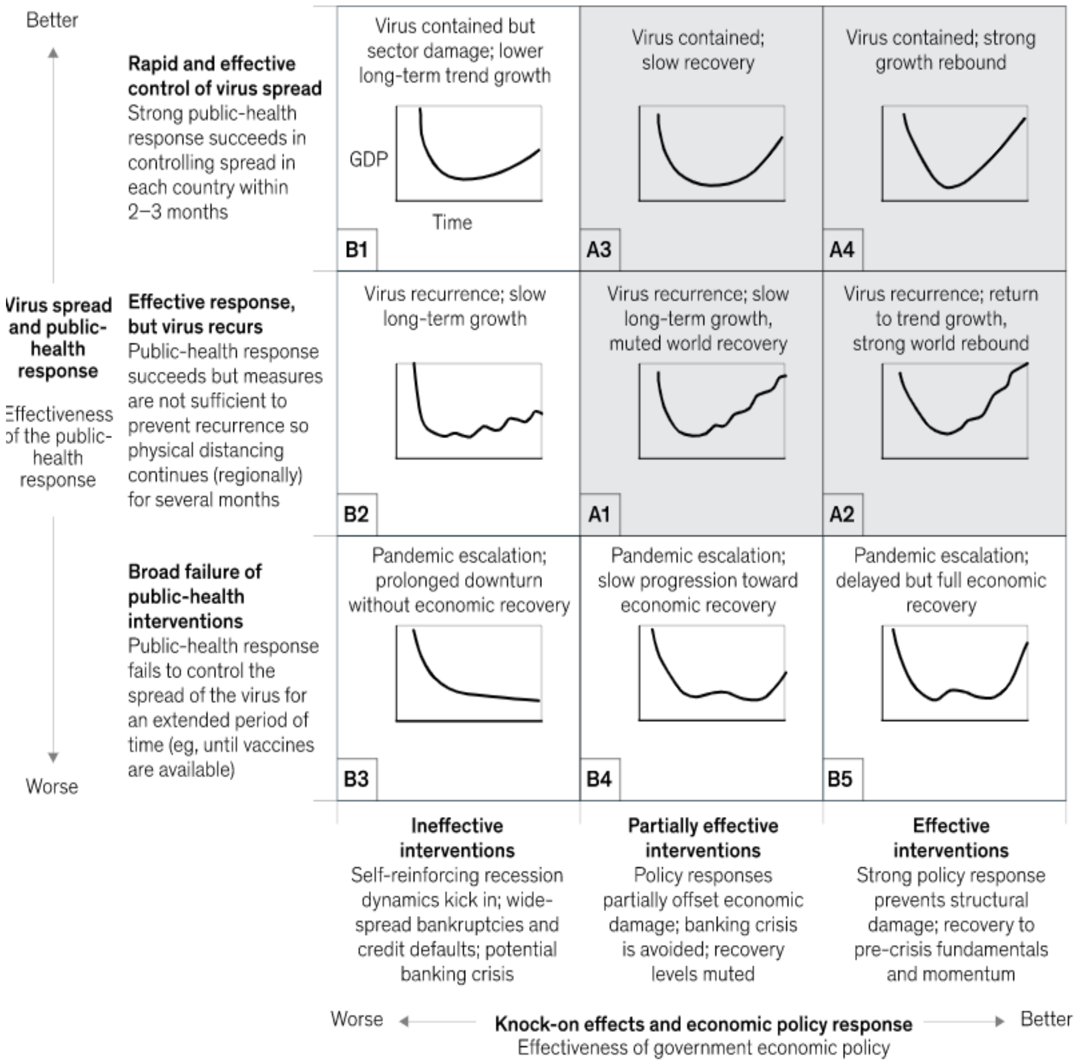
Possible longer-term effects

It is already clear that there will be a bigger decline in economic activity beyond that seen in anyone's lifetime. This section reviews estimates of how large it is, the recovery path the economy might take, and

[32] GLA Economics (2019), '[The London input-output tables](#)'.
[33] Mastercard (2020), '[Global Destinations Cities Index 2019](#)'.
[34] ONS (2020), '[Coronavirus (COVID-19) related deaths by ethnic group, England and Wales](#)'.

what factors might be important. Conceptually, the economy might follow a V-, W-, U-, or L-shaped recovery (Figure 3.10). What happens will depend on both the effectiveness of public health interventions, to control the virus until there is a vaccine, and economic interventions, to support the economy. If both are effective and timely there could be a V-shaped recovery where the economy returns rapidly to former levels of activity. If both are ineffective, there is a risk the recovery will be L-shaped as the economy enters a slump. While, if the public health response is ineffective, but the economic response is effective at least to some degree then there may be a W-shaped recovery. Finally, a U-shaped recovery might occur if both responses are at least to some degree effective.

Figure 3.10: Scenarios for the economic impact of the COVID-19 crisis



Source: McKinsey & Company[35]

The main text notes that more recent forecasts are more pessimistic about the economy. There is agreement that the contraction in Q2 2020 will be the deepest in 120 years, although there are a range of estimates around how deep it will be:

[35] McKinsey & Company (2020). 'COVID-19: Briefing materials, Global health and crisis response, 24 April 2020'.

- The OBR in its Coronavirus Reference Scenario estimates that the UK economy could contract by 35% in the second quarter of this year, and by 13% over the whole year if that scenario came to pass[36].
- The BoE expects in their scenario that GDP will be close to 30% lower in Q2 2020 than it was at the end of 2019. UK GDP is expected to have fallen by around 3% in Q1 2020 and then to fall by a further 25% in Q2. GDP is expected to fall by 14% over 2020[37].
- The National Institute for Economic and Social Research (NIESR) estimates a 30% contraction during lockdown[38], and a 7% fall in GDP in 2020.
- The Institute for Social and Economic Research at the University of Essex models a 20% contraction using input-output tables.

Assuming that public health and economic interventions are effective the pace of recovery will depend critically on the period for which social distancing measures are in place. The Government's Chief Medical Officer expects some forms of restrictions to be still in place by the end of the year, although forecasters tend to be more optimistic:

- The OBR assumed three months of full lockdown and three months of partial lockdown.
- The BoE illustrative scenario is conditioned on social distancing measures and government support schemes remaining as they are until early June, before being gradually unwound by the end of Q3.
- NIESR assumes three months of lockdown.

Both the OBR and the BoE assume a V-shaped recovery in their published scenarios. The extent to which GDP recovers will also be affected by developments in the economy's supply capacity. In the BoE illustrative scenario, "productivity is lower than it would have been in the absence of COVID-19, reflecting lower investment — including in research and development — and less on-the-job training and innovation. Those effects are relatively small, however, as the support measures in place are assumed to help prevent much longer-lasting damage to the economy". The scenario embodies an assumption that unemployment eventually falls back to close to its pre-COVID-19 rate and there is no rise in the long-term equilibrium rate of unemployment.

At the same time, the BoE recognises that, "given the severity of the economic disruption, there is a risk of substantial longer-term damage to the economy from business failures and an increase in unemployment. As well as being costly in their own right, business failures and high unemployment can give rise to 'hysteresis' effects. Evidence from past periods of hysteresis indicate that these losses can be significant".

While, NIESR does estimate some effects from scarring, so that it expects the economy to be 3.5% smaller after ten years than it would otherwise have been.

In conclusion, all forecasters recognise the high level of uncertainty around their predictions, and notably the OBR and BoE have called their modelling scenarios rather than forecasts. The effectiveness of the public health and economic interventions are not fully known, nor is it clear how long the lockdown will last, or in what form, and when a vaccine might be available.

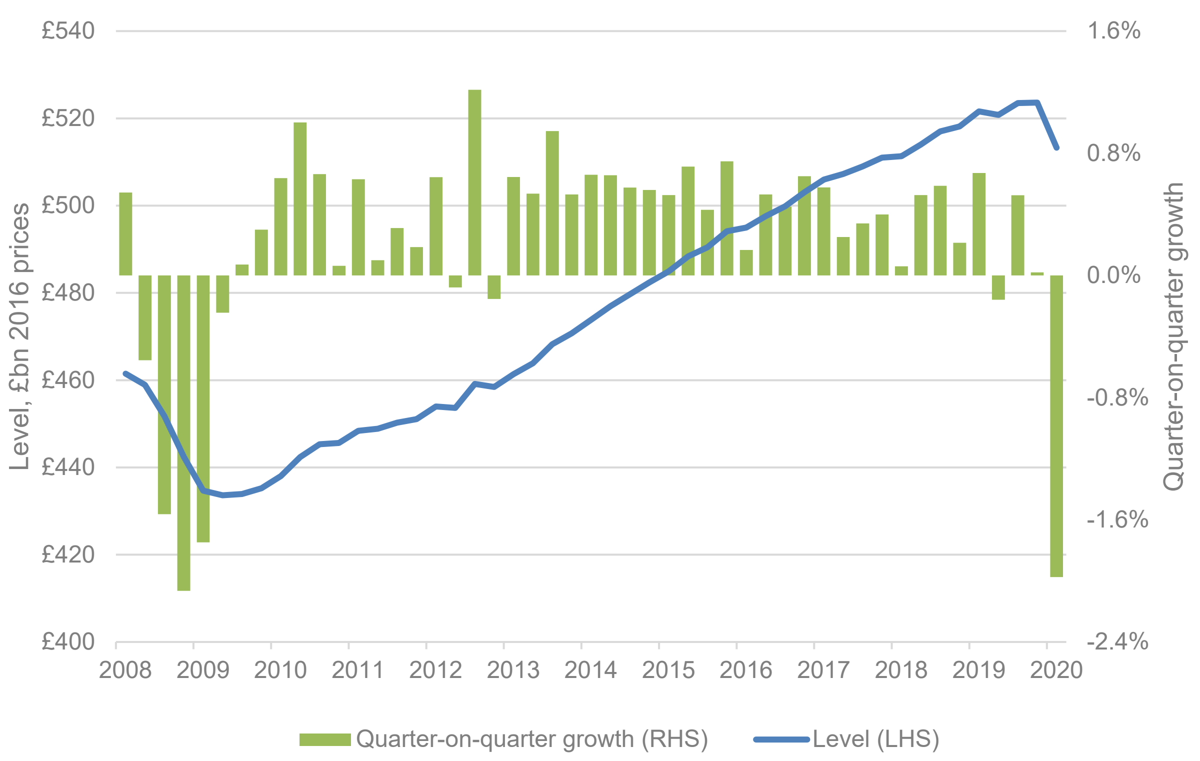
[36] Coronavirus analysis - Office for Budget Responsibility.
[37] Bank of England (2020). 'Monetary Policy Report and Interim Financial Stability Report – May 2020'.
[38] New analysis of the impact of lockdown on UK jobs - Institute for Social and Economic Research (ISER).

3.2 The UK economy

The main measure of economic growth for the UK is Gross Domestic Product (GDP). On this basis, the UK economy flatlined in Q4 2019, and shrank by -2.0% in Q1 2020 according to the first estimate from the ONS (Figure 3.11). While the estimates of GDP are potentially subject to revisions at a later stage, particularly when as now the economy is changing so rapidly and the ONS has had to change its survey methods in response, this decline is comparable with that of the largest quarterly fall during the 2008 recession. The major fall in GDP was in the last two weeks in March, as the process of lockdown came into effect. For the whole month GDP fell by 5.8%, close to the annual fall in GDP in 2008. This reflects widespread falls in the services, production, and construction sectors.

Figure 3.11: UK GDP in real terms

Last data point is Q1 2020 (First estimate)



Source: ONS (2020). 'GDP first quarterly estimate, UK: January to March 2020', 13 May 2020.

Looking slightly further back most, but by no means all, sectors of the UK economy grew over the year to Q4 2019 although at varying rates of speed. Output contracted across all major parts of the economy in the year to Q1 2020 except for Government and other services (up by 0.7%), and Water supply and sewerage (up by 3.9%). Construction output fell by -5.0%, Transport, storage and communication fell by -4.3%, and Distribution hotels and catering fell by -3.0% (Table 3.1).

Table 3.1: Percentage annual change in real GVA by broad industry group for the UK

	2018			2019				2020
Industrial sectors	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Agriculture, forestry, and fishing	-3.2%	-4.0%	-2.5%	-1.6%	-1.1%	-0.7%	-1.3%	-0.4%
Mining & quarrying inc oil & gas extraction	5.0%	6.9%	8.3%	4.9%	-0.7%	-1.8%	-3.1%	-6.7%
Manufacturing	1.9%	1.0%	-1.3%	0.5%	-2.1%	-2.5%	-2.7%	-6.0%
Electricity gas and water supply	-3.6%	-2.3%	-3.0%	-6.5%	-0.2%	-3.3%	-0.6%	-4.4%
Water supply, sewerage, etc.	2.0%	2.9%	1.4%	1.8%	1.0%	0.8%	1.9%	3.9%
Construction	1.5%	1.1%	-0.9%	0.1%	-1.6%	-2.1%	-2.1%	-5.0%
Distribution hotels and catering	-0.1%	0.8%	0.0%	4.0%	1.9%	1.8%	1.7%	-3.0%
Transport, storage and communication	2.9%	3.7%	4.1%	4.7%	3.0%	2.0%	1.2%	-4.3%
Business services and finance	3.0%	4.5%	4.7%	6.2%	5.3%	3.8%	2.2%	-2.5%
Government and other services	2.1%	1.8%	1.7%	0.6%	0.3%	0.9%	0.8%	0.7%

Source: ONS (2020). 'GDP first quarterly estimate, UK: January to March 2020', 13 May 2020.

The GDP data can also be split into different types of final expenditure. That is, the expenditure on goods and services which are not used in the production process (i.e. as intermediate consumption). This includes final expenditure by households, general government and the non-profit institutions serving households, as well as expenditure used in gross capital formation (e.g. business investment)[39]. For the most recent period, the year to Q1 2020, there has been a decline across all types of expenditure (Table 3.2).

Table 3.2: Annual rates of real growth in domestic final expenditure for the UK

	2018			2019				2020
Expenditure	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Households	1.7%	1.8%	1.6%	1.3%	1.3%	1.1%	0.9%	-1.0%
Non-profit institutions	-0.2%	0.2%	-0.4%	-0.6%	-0.9%	-0.5%	-1.2%	-0.6%
General Government	0.0%	0.3%	1.4%	2.9%	4.1%	3.5%	3.6%	-0.1%
Gross fixed capital formation	-0.7%	0.0%	-1.2%	1.0%	0.7%	0.8%	-0.3%	-2.3%

Source: ONS (2020). 'GDP first quarterly estimate, UK: January to March 2020', 13 May 2020.

Household expenditure is important to the UK economy, with it contributing a little under two-thirds to UK GDP in 2019. However, the latest estimates showed that consumer spending fell by -1.0% year-on-year in real terms in Q1 2020. The other notable trend is for gross fixed capital investment which fell by -2.3% over the same period.

Forecasts of the UK economy

The impact of the lockdown is that the economy will contract this year, and there will be recovery, at least to some extent in 2021. The key factors which will determine the path of the economy over the next couple of years are all associated with COVID-19, namely the length of the lockdown, the effectiveness of public health interventions in containing it, the timing of the discovery of a vaccine and its widespread availability, and the effectiveness of economic interventions in supporting recovery. Box 3.1 considers in more detail the economic effects of the virus, and how this has been modelled in forecasts. While the UK left the EU in January the terms of the future trading relationship are not yet known; Box 3.2 provides an update on the current position. Despite efforts to understand the immediate effects of the virus it may exacerbate

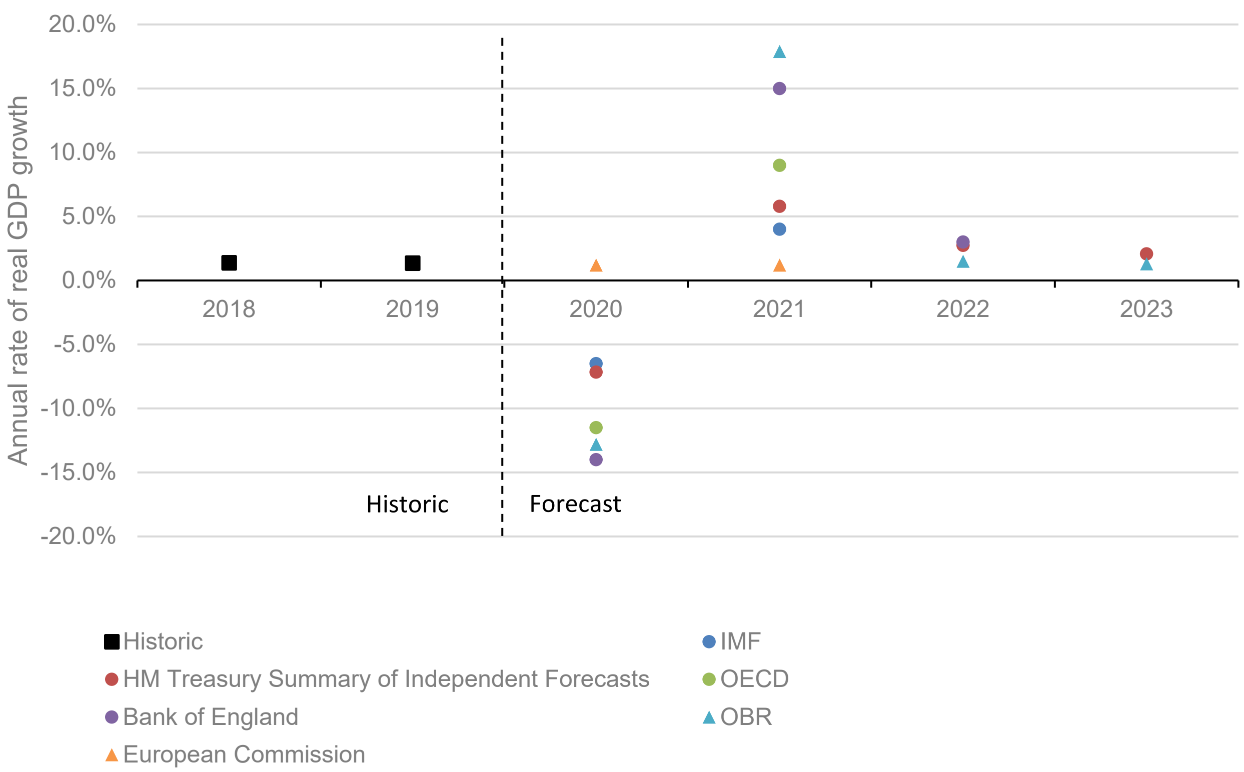
[39] It also includes net trade in goods and services.

longstanding concerns such as low productivity in the UK, disruption caused by trade disputes, and general global economic sluggishness. Other risks to the UK economy are still there and are discussed in greater detail in Section 3.4.

Acknowledging the above, Figure 3.12 shows the range of forecasts for real UK GDP growth. This includes the International Monetary Fund's (IMF) forecast which in the April edition of the World Economic Outlook expects GDP growth of -6.5% in 2020, followed by 4.1% in 2021 (changed from 1.4% and 1.5%, respectively, in October 2019)[40]. It also includes the HM Treasury's summary consensus of independent forecasts for the UK economy based on research from a variety of organisations. From this, the latest average forecast is for growth of -7.9% in 2020 and 6.0% in 2021.

It should be noted that these forecasts are of different vintages, and that the more recent forecasts tend to be more pessimistic. The OBR has modelled that the UK economy may shrink by 35% in Q2, and the BoE has estimated a contraction of 30%. The organisations have estimated that the economy will shrink by 13% and 14% in 2020 respectively. This would be the largest annual decline for 120 years.

Figure 3.12: Forecasts of real UK GDP growth



Source: ONS (2020). 'GDP first quarterly estimate, UK: January to March 2020', May 2020; IMF (2020), 'World Economic Outlook: The Great Lockdown' April 2020, HM Treasury (2020)https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801759/PU797_Forecast_for_the_UK_Economy_May_2019_covers.pdf, Forecasts for the UK economy: a comparison of independent forecasts', May 2020; OECD (2020), 'Interim Economic Outlook', June 2020; Bank of England (2020), 'Monetary Policy Report', May 2020; OBR (2020), 'Coronavirus reference scenario', April 2020; and European Commission (2020), 'Economic Forecast', February 2020.

[40] IMF (2020). 'World Economic Outlook: The Great Lockdown', April 2020.

The OBR and HM Treasury also publishes forecasts for other variables like the labour market and public-sector net borrowing (PSNB). These are shown in Table 3.3[41].

Table 3.3: Selected OBR and HM Treasury consensus forecasts for the UK economy

	HM Treasury's Average of Independent Forecasters (May 2020)		Office for Budget Responsibility (April 2020)	
	2020	2021	2020	2021
Annual real GDP growth rate	-7.9%	6.0%	-12.8%	17.9%
LFS unemployment rate	7.3%	5.9%	7.3%	6.0%
Current account	-£77.9bn	-£74.8bn	-	-
Public sector net borrowing (financial year)	£239.6bn	£138.9bn	£273.0bn	£75.9bn

Sources: HM Treasury (2020)https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801759/PU797_Forecast_for_the_UK_Economy_May_2019_covers.pdf, Forecasts for the UK economy: a comparison of independent forecasts', May 2020; and OBR (2020), 'Coronavirus reference scenario', April 2020.

Other UK economic indicators

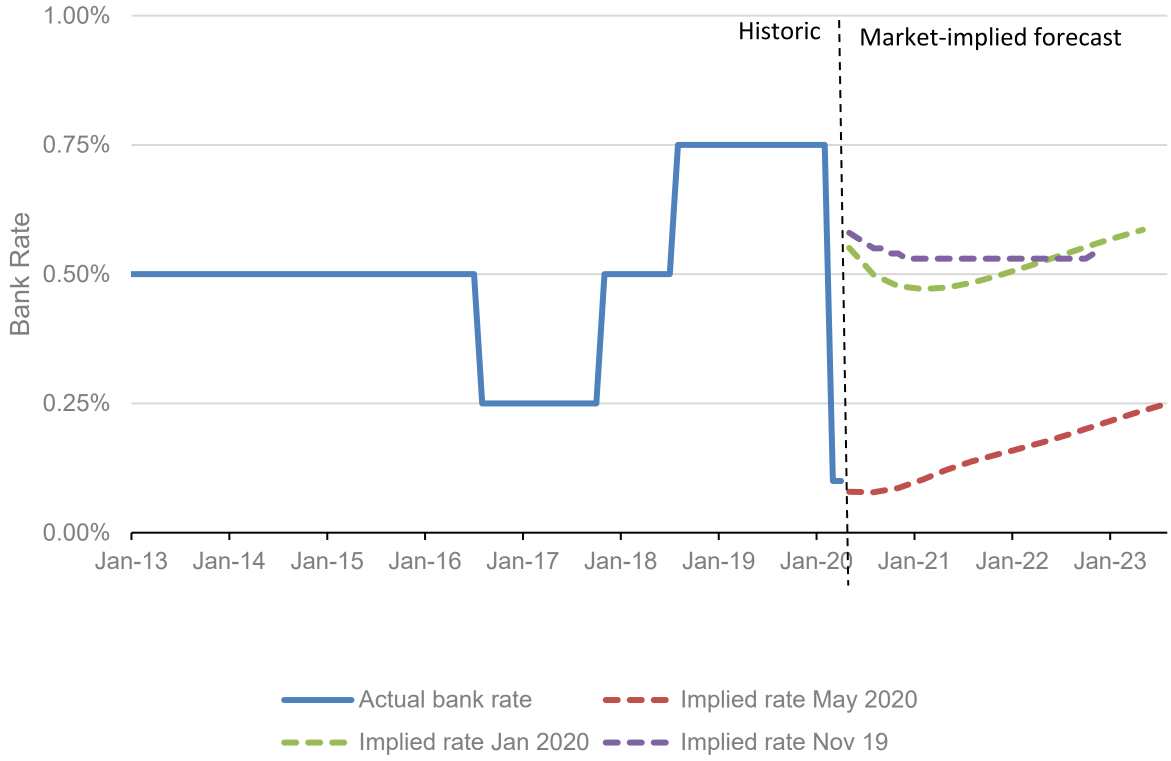
Beyond GDP, another important economic indicator is inflation as measured by the Consumer Price Index (CPI). Inflation, having been above the Bank of England's central symmetrical target of 2% since February 2017 in part due to the large depreciation of sterling following the EU referendum making the price of imported goods and services more expensive, has fallen back in 2019. This decline in inflation was expected as the pickup in inflation from 2017 was expected to be short-lived as the sterling-related price increases worked its way through the economy. This indeed does seem to have now happened with CPI inflation standing at 1.5% in March 2020[42] and having been at or below the target level since December 2018.

There was a further depreciation of sterling in March but the Bank is not expecting a rise in inflation. This is despite OBR estimates that there might be additional government borrowing of nearly £250bn to support the economy through the recession[43]. The Bank thinks that CPI inflation "is likely to fall below 1% in the next few months, in large part reflecting developments in energy prices." Although not known to the Bank at the time, by April CPI inflation had fallen to 0.8% primarily due to a fall in energy and fuel prices[44]. Further out, as demand in the economy rises, inflation is expected to pick up, and rise to the Bank's target of 2%.

In part given low inflation expectations, the sluggishness of the economy and uncertainty of the economic outlook the Bank has not raised interest rates since August 2018 when rates were raised 0.25 percentage points to 0.75%. As the scale of the impact of social distancing measures to tackle COVID-19 became apparent in March, the Bank lowered interest rates to 0.25% then 0.1%. Market expectations of future interest rates have declined accordingly, and expectations are that they might rise to 0.25% over the next couple of years (Figure 3.13).

[41] In September, the ONS implemented methodological changes to the reporting of public sector finances, notably the treatment of student loans, and this accounts for some of the difference in the estimates of forecasts for public sector new borrowing. For more details see: ONS (2019). 'Public sector finances, UK', 24 September 2019.
[42] ONS (2020). 'Consumer price inflation, April 2020', May 2020.
[43] OBR (2020). 'Coronavirus policy monitoring', 14 May 2020.
[44] ONS (2020). 'Consumer price inflation, April 2020', May 2020.

Figure 3.13: Market-implied interest rate path for the UK



Source: Bank of England (2020), 'Monetary Policy Report', May 2020.

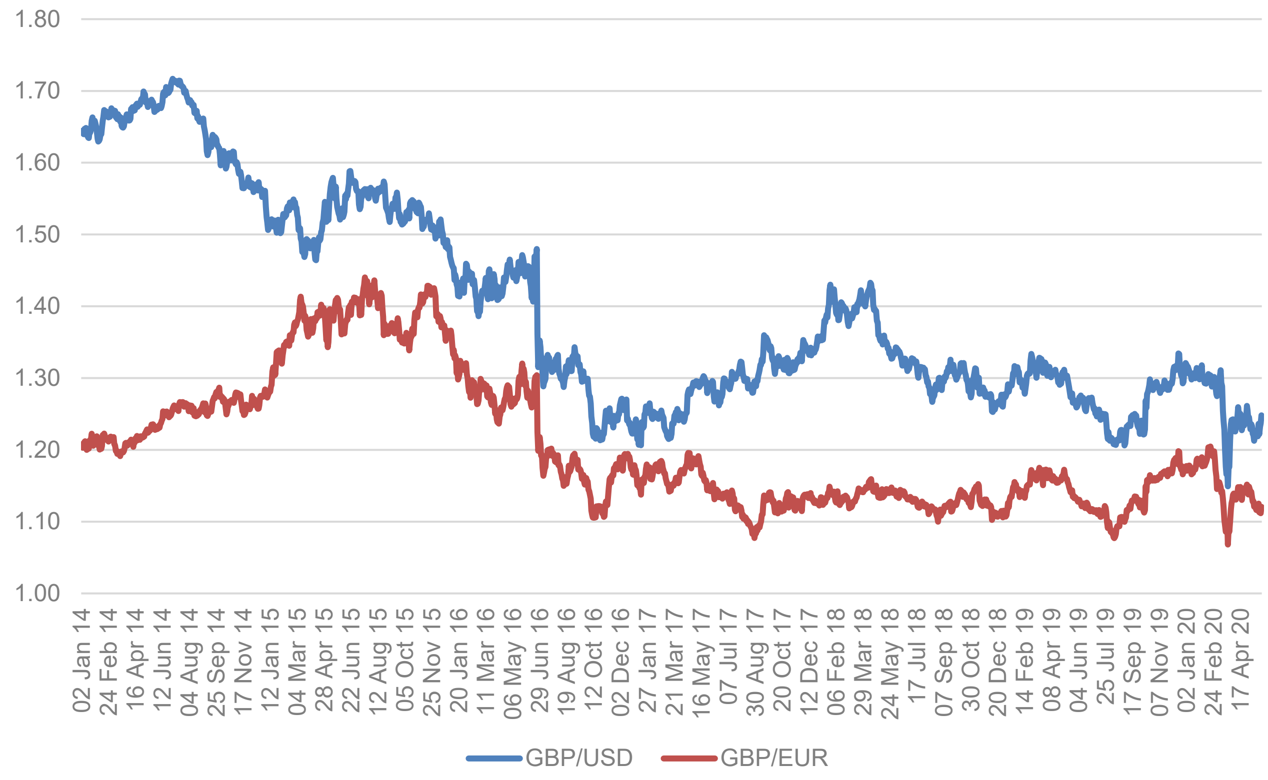
Interest rate changes can have several influences on the economy[45]. All other things held constant, rises can bolster sterling as returns (interest) on sterling would be relatively higher than other countries leading to an increase in demand for sterling-based assets by foreigners. They can also reduce consumer demand as higher interest on savings raises the 'opportunity cost' of spending. Likewise, it can reduce the appetite to invest and borrow as the cost in terms of debt interest would be higher. It can thus slow the rate of inflation and negatively affect the rate of economic growth in the short-run through the combined effect of weaker demand for goods and services. Lowering interest rates would have the reverse of these effects. However, the magnitude of these effects will be dependent on several factors – i.e. the speed and scale of the interest rate changes, the time it takes for interest rates to work through the transmission mechanism, and the current state of the wider economy – and therefore provides some further uncertainty to economic forecasts. It should also be noted that interest rates in the UK remain at historically very low levels and any changes in rates are expected to be slow and limited, indicating that the dampening effect of interest rates on the UK in the near term is likely to be very limited.

It has already been noted that the value of sterling fell following the result of the EU referendum in June 2016 and this is shown in Figure 3.14. Sterling had been relatively steady against the Euro since mid-2017, although there have been marked down and then upward movements in the second half of 2019 as first a no deal Brexit became more likely, and then a deal became more likely. At the same time, sterling appreciated against the US dollar through 2017 and into the early part of 2018 but had since dropped back largely due to continuing Brexit uncertainty (Box 3.2).

[45] For more information, see Bank of England (1999). 'The transmission mechanism of monetary policy', Bank of England Quarterly Bulletin, May 1999.

In early March when it became apparent that the UK economy would be significantly affected by COVID-19 the pound depreciated again against both the US dollar and the Euro. In part, this reflects a flight to strong currencies, but it may also reflect the comparative weakness of the UK economy after leaving the EU. An aspect of this is that the UK is an open economy which has had large current account deficits over many years. The UK has been living beyond its means, and this might reduce the attractiveness of holding assets in sterling, especially as countries close down their economies and restrain trade.

Figure 3.14: Sterling to US dollar and euro exchange rates
Last data point is 1 June 2020



Source: Bank of England

Overall, the first estimate of UK GDP growth in Q1 2020 was comparable with the decline during the 2008 recession. This only reflected the first two weeks of the lockdown, and the likely full effect will be several times larger. The pace of recovery will depend on the effectiveness of interventions to tackle COVID-19, and there remains considerable uncertainty around the path of the economy. The outcome of negotiations on future trading relationships with the EU is another source of uncertainty hanging over the economy.

Box 3.2: A brief update on Brexit

Following the Conservative Party winning a clear majority in the December general election the UK formally left the EU at the end of January and entered a transition period currently scheduled to finish at the end of this year. Talks on the future trading relationship between the UK and EU were started in March 2020 but have been somewhat disrupted due to the COVID-19 pandemic. Nevertheless, so far four meetings have taken place although statements from both sides indicate that differences remain among the parties.

Still, the UK & EU have exchanged initial negotiating goals ahead of these meetings. Thus, the UK in the document outlining its approach to the negotiations said it sought a free trade agreement in line with those "already agreed by the EU in recent years with Canada and with other friendly countries". This "should be supplemented by a range of other international agreements covering, principally, fisheries, law enforcement and judicial cooperation in criminal matters, transport, and energy, and once again this paper sets out the content of such agreements in detail. All these agreements should have their own appropriate and precedented governance arrangements, with no role for the Court of Justice"[46].

The EU's published negotiating guidelines envisions a partnership where "there are sufficient guarantees for a level playing field so as to uphold corresponding high levels of protection over time. This partnership should be comprehensive, encompassing a free trade agreement as well as wider sectoral cooperation where it is in the Union interest". However, they note "the envisaged partnership should include, in its economic part, provisions on fisheries setting out a framework for the management of shared fish stocks, as well as the conditions on access to waters and resources and common technical and conservation measures". Adding in terms of dispute settlement that "should a dispute raise a question of interpretation of Union law, which may also be indicated by either Party, the arbitration panel should refer the question to the [Court of Justice of the European Union] CJEU as the sole arbiter of Union law, for a binding ruling. The arbitration panel should decide the dispute in accordance with the ruling given by the CJEU'[47].

There was thus a degree of divergence between the envisioned future relationship as seen by the UK and EU at the start of the negotiations. Unsurprisingly, these have led to disagreements during the process. One area of particular concern to London and also the UK economy surrounds Financial services. In relation to this Michel Barnier has stated that there should be "no illusions on this issue; there will be no general, global or permanent equivalence on Financial services".

In February the Government also announced details of their proposed new migration regime, which would not apply to workers from the European Economic Area until at least the end of the current transition period which is due to finish on 31 December 2020. Legislation for this regime was brought forward in May. This migration regime will require migrants to collect 70 points, 50 of which will cover speaking English, having a job offer and being above a "skills threshold". To gain the remaining 20 points migrants can either earn at least £25,600, have a PhD in a relevant field to their job offer and earn above at least £23,040, have a PhD in a STEM subject relevant to the job or have a job offer in "a shortage occupation"[48].

The Government has not yet published analysis of the economic impact of their proposed trading and migration arrangements. However, the Office for Budget Responsibility (OBR) in their March 2020 economic and fiscal outlook estimated that "economic effects of the referendum vote have so far reduced potential output by around 2 per cent". While looking forward they also modelled a "typical" free trade agreement. This found that a central estimate gave a reduction on potential productivity compared to no change "– i.e. including both the effects on total factor productivity and capital deepening – in the region of 4 per cent in the long run, although the range of estimates is wide". This was "mainly due to extra costs resulting from higher trade barriers and greater impediments to the exploitation of comparative advantage". They further noted that the impact of Brexit on productivity has already "reached 1.4 percentage points, according to our estimates, around one third of the long-run impact is, in effect, already in the data". Adding that they "assume a further third of the long-run productivity effect – in net terms – will take place over our current forecast period [up to 2025]and the final third [is] beyond the

[46] HM Government (2020). 'The Future Relationship with the EU - The UK's Approach to Negotiations'.
[47] Council of the European Union (2020). 'ANNEX to COUNCIL DECISION authorising the opening of negotiations with the United Kingdom of Great Britain and Northern Ireland for a new partnership agreement'.
[48] HM Government (2020). 'The UK's points-based immigration system: policy statement'.

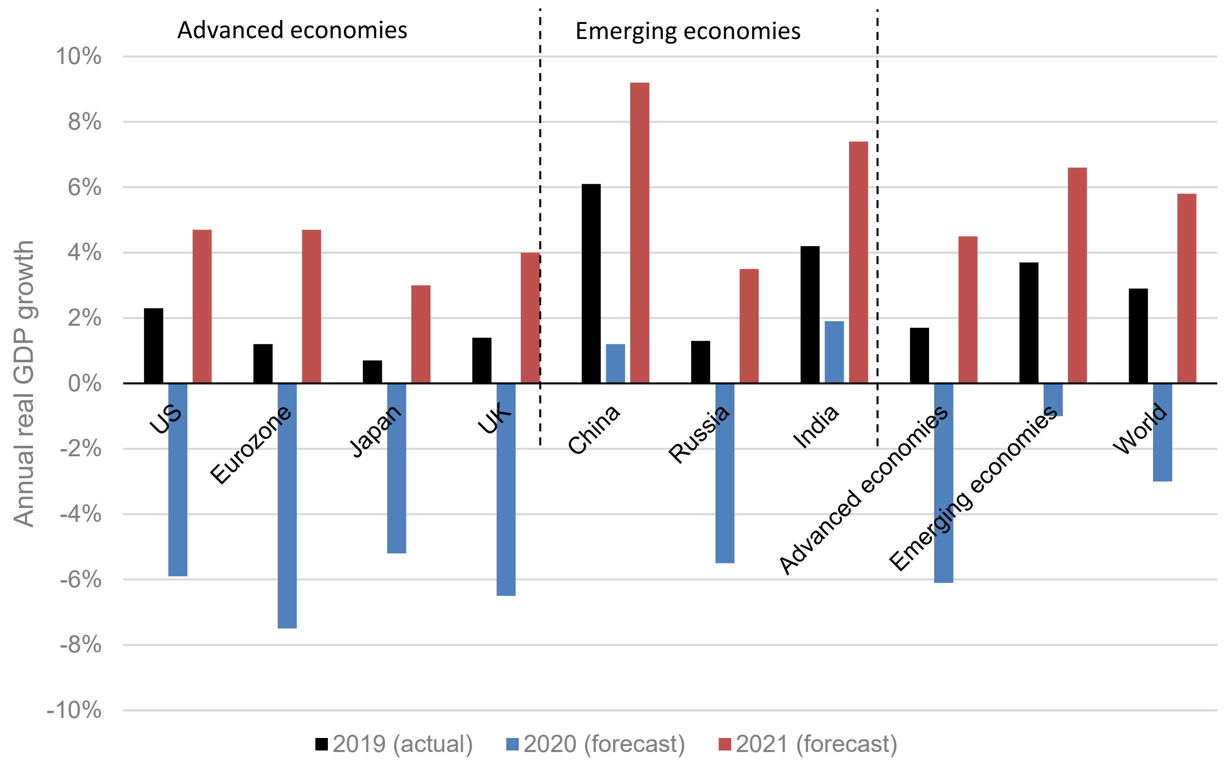
forecast horizon"[49]. The Bank of England in January also noted the possible negative impact of Brexit on UK productivity observing that "looking across sectors, the time and money spent on planning for Brexit has been correlated with weaker productivity growth"[50].

The OBR scenario was however developed before the economic impact of the current COVID-19 pandemic was fully appreciated. As well as the pandemic, Brexit remains one of the biggest risks to the London economy in the coming years. With the deadline for any application to extend the current transition period fast approaching, GLA Economics will continue to report on the progress of this process in its upcoming publications.

3.3 The world economy

The global economy was estimated to have grown 2.9% in 2019 by the IMF. In the latest IMF World Economic Outlook (WEO)[51], the world economy is expected to contract by -3.0% this year, before picking up again to 5.8% growth in 2021. For the first time since the Great Depression both advanced economies and emerging market and developing economies are in recession (Figure 3.15). Even during the financial crisis in 2008 the world economy grew, if only at 0.1%. The 2020 figure has been revised down by 6.3 percentage points since the WEO Update of January 2020, which is an extremely large downgrade in a period of three months.

Figure 3.15: IMF forecasts of annual rate of real GDP growth for selected countries



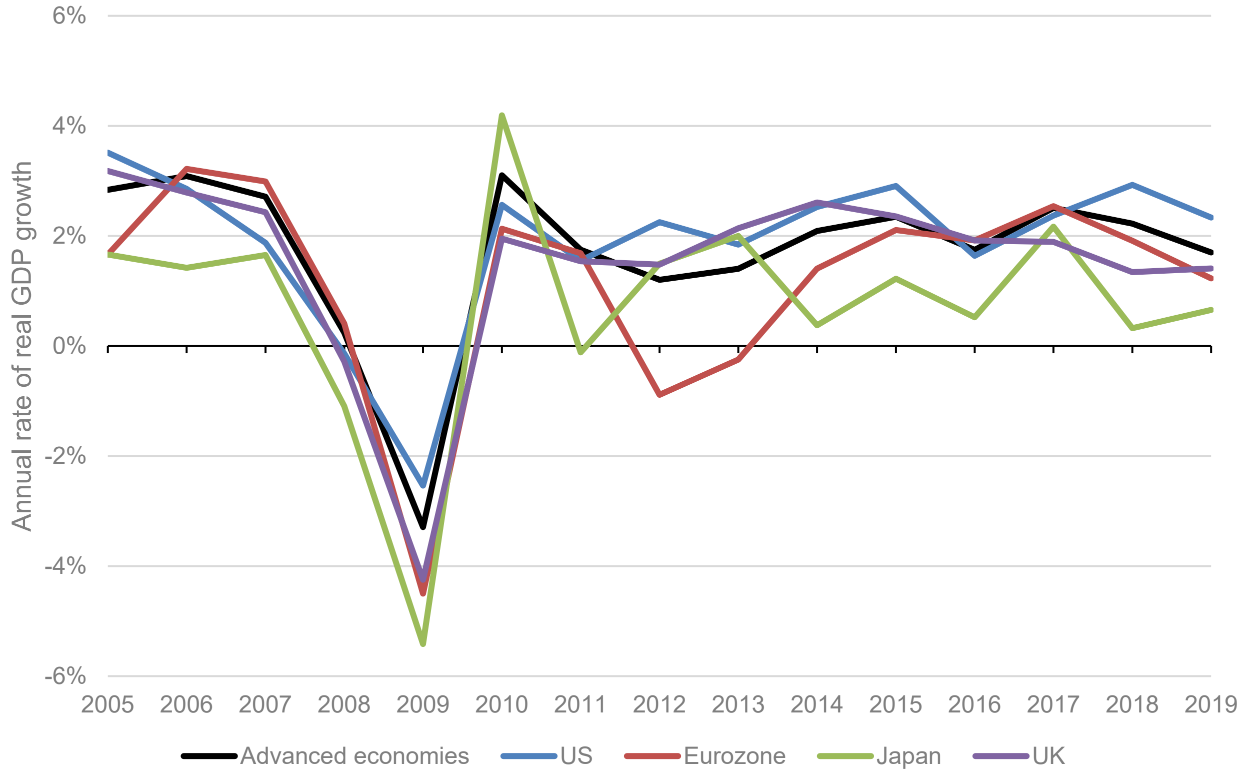
Source: IMF (2020). '[World Economic Outlook: The Great Lockdown](#)', April 2020.

[49] Office for Budget Responsibility (2020). 'Economic and fiscal outlook – March 2020'.
[50] Bank of England (2020). 'Monetary Policy Report – January 2020'.
[51] IMF (2020). 'World Economic Outlook: The Great Lockdown', April 2020.

Advanced economies

The advanced economies collectively grew 1.7% on an annual basis in 2019, a slight slowdown on the previous year but still one of the strongest rates of growth since the financial crisis. The IMF expects growth to slow in 2020 with it dropping to -6.1% (down 7.7 percentage points on the January 2020 forecast), with it expected to recover to 4.5% in 2021 (up 2.9 percentage points on their January forecast) (Figure 3.16). This reflects the effects of COVID-19, and the subsequent recovery.

Figure 3.16: Annual rate of real GDP growth for selected advanced economies



Source: IMF (2020). 'World Economic Outlook: The Great Lockdown', April 2020.

Looking at the advanced economies in greater detail, the **US** economy shrank by 5.0% year on year in Q1 2020. This follows a year on year expansion of 2.1% in Q4 2019[52]. In April 2020, non-farm payroll employment fell by 20.5m and the unemployment rate increased by 10.3 percentage points to 14.7%[53]. There was a recovery in May when employment rose by 2.5m, and the unemployment rate fell to 13.3%[54]. In response, the US federal spending on COVID-19 relief will be up to $3tn. This includes a $2.2tn stimulus package of: $1,200 in direct relief for American adults, a $500bn lending programme for businesses, cities and states, and a £367bn fund for small businesses. While, the Federal Reserve has held interest rates so that they continue to be between 1.5% and 1.75% it has initiated a number of programmes to support the flow of credit to households and businesses[55]. Looking forward the IMF expects the US economy to shrink by 5.9% in 2020 overall and grow by 4.7% in 2021. Compared with the IMF's January 2020 forecasts, these

[52] Bureau of Economic Affairs (2020). 'Gross Domestic Product, First Quarter 2020', 28 May 2020.
[53] US Bureau of Labor Statistics (2020). 'Employment Situation Summary', 8 May 2020.
[54] US Bureau of Labor Statistics (2020). 'Employment Situation Summary', 5June 2020.
[55] US Federal Reserve Board (2020). 'Press Releases'.

latest IMF forecasts are downwards revised for 2020 (by 7.9 percentage points) and upwards revised (by 2.9 percentage points) for 2021.

Meanwhile, the **Eurozone's** economy has also contracted. In Q1 2020, GDP fell by 3.8% on a quarter-by-quarter basis, and 3.2% on an annual basis[56]. The growth rate was 0.1% in Q4 2019. The IMF forecasts the Eurozone to shrink by 7.5% in 2020 before picking up to 4.7% growth in 2021. There has been a coordinated monetary response through the European Central Bank (ECB)[57]. It has initiated a €750bn Pandemic Emergency Purchase Programme (PEPP) to lower borrowing costs and increase lending in the Zone, and increased the amount of money that banks can borrow specifically to make loans to the hardest hit businesses. The interest rate on deposits remains negative. The EU agreed on 9 April a €540bn package of crisis-fighting measures, including the deployment of loans from the European Stability Mechanism with few strings attached[58]. The European Commission president, Ursula von der Leyen, announced on 27 May a €750bn debt-funded EU "recovery fund" to distribute according to need, €500bn in non-refundable grants, and €250bn in loans[59] – this will need the support of all EU member countries to come into effect.

In **Japan**, the economy entered recession in the first quarter of 2020 when it contracted at an annual rate of 3.4% this follows a fall of 6.4% in the fourth quarter of 2019. Looking forward, the IMF notes that Japan's economy is projected to contract by 5.2% in 2020 (5.9 percentage points lower than in the January 2020 WEO), and grow by 3.0% in 2021 (2.5 percentage points higher than the previous forecast).

Emerging market economies

Growth in the emerging market economies is expected to be less negative this year and more positive in the next year. The IMF expects a small contraction of -1.0% in 2020 and growth of 6.6% in 2021, which is markedly higher than its rate of 3.7% in 2019[60] (Figure 3.17). The IMF has noted that COVID-19 brings financial stability challenges, and that, "Emerging market economies experienced the sharpest reversal of portfolio flows on record".[61] Non-resident portfolio outflows reflecting the oil price decline, increased global risk aversion, and the prospect of a global recession have been more than $100bn since January 21.

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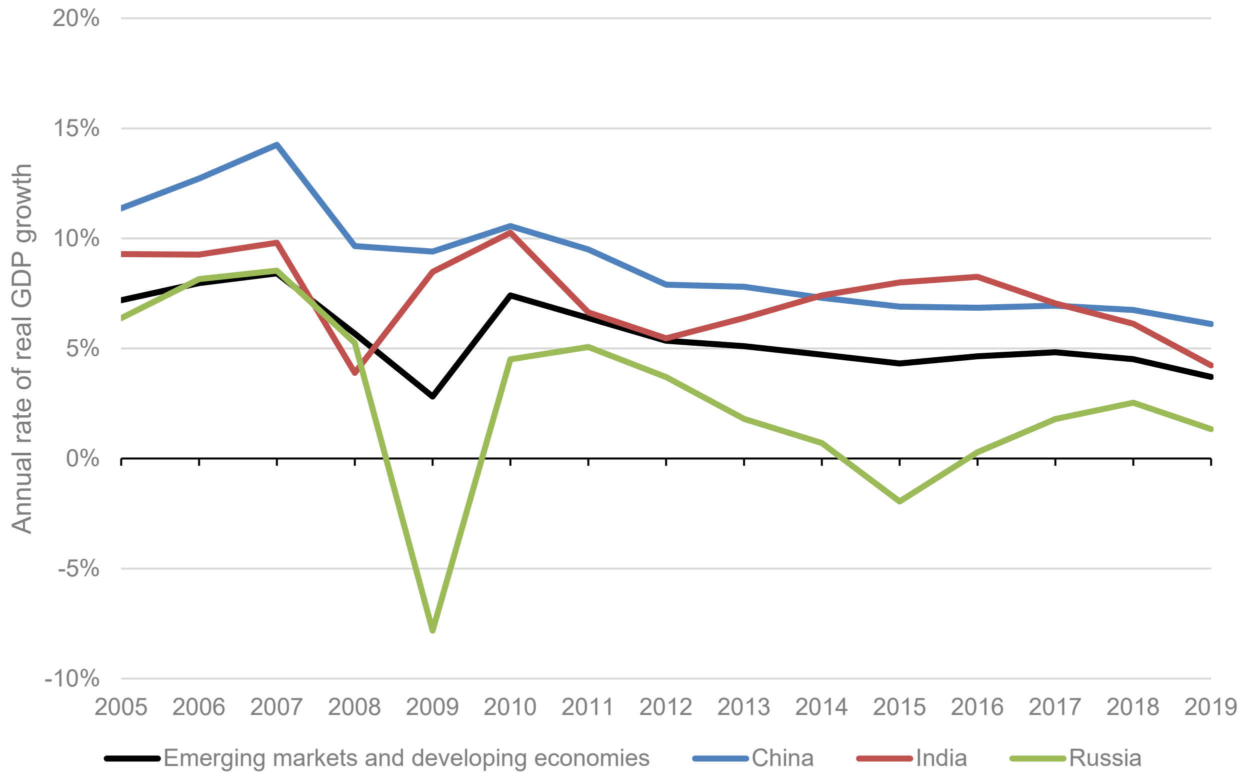
56 Eurostat (2020). 'GDP and employment flash estimates for the first quarter of 2020', 15 May 2020.
57 European Central Bank (2020). 'ECB response to COVID-19'.
58 Financial Times (2020). 'The chain of events that led to Germany's change over Europe's recovery fund', 22 May 2020.
59 Financial Times (2020). 'Brussels wants €750bn borrowing power to fund virus recovery', 27 May 2020.
60 IMF (2020). 'World Economic Outlook: The Great Lockdown', April 2020.
61 IMF (2020). 'Global Financial Stability Report', April 2020.

Figure 3.17: Annual rate of real GDP growth for selected emerging market economies



Source: IMF (2020). 'World Economic Outlook: The Great Lockdown' April 2020.

Of the major emerging markets, **China's** economy grew by 6.0% year-on-year in Q4 2019, the same as in Q3 2019, and shrank by 6.8% in Q1 2020[62]. While, as of the time of writing, China appears to have contained its coronavirus outbreak effectively, its outlook remains uncertain due to the ongoing trade dispute with the US, and weakened prospects for world trade. The IMF expects growth to slow to 1.2% in 2020 before accelerating to 9.2% in 2021 (a downgrade of 4.8 percentage points for 2020 and an uplift of 3.4 percentage points for 2021 on their January forecast). This is generally in line with the forecasts by the Asian Development Bank (ADB) that expects growth of 2.3% in 2020 and 7.3% in 2021[63].

Meanwhile, **India's** economy is estimated by the IMF to have grown by 4.2% in the year to 2020 Q1, although the annualised growth rate in the first quarter of 2020 was a slower 3.1%[64] . Looking forward the IMF expects growth to slow to 1.9% in 2020, before picking up to 7.4% in 2021 (a downgrade of 4.8 percentage points for 2020, and an upgrade of 3.4% for growth for 2021 compared to their January forecast). The ADB also expects slower growth this year prior to stronger growth in 2020 – 4.0% in 2020 and 6.2% in 2021.

In **Russia**, the economy grew by 1.6% year-on-year in Q4 2019 compared to 1.5% in Q3 2019[65]. The IMF, as it does with other economies, expects decline and recovery over the next couple of years with forecasts of -5.5% in 2020 and 3.5% in 2021.

[62] Source: National Bureau of Statistics of China.
[63] Asian Development Bank (2020). 'What Drives Innovation in Asia?', April 2020.
[64] Government of India, Ministry of Statistics and Programme Implementation (2020), available at Press Releases.
[65] OECD (2019). 'GDP and spending - Quarterly GDP - OECD Data'.

3.4 Risks to the economy

The main risk to London's economic outlook is around recovery from the COVID-19 outbreak. This will depend on the duration of lockdown, and the effectiveness of both public health and economic interventions. It is likely to exacerbate existing risks to the UK economy surrounding Brexit, deteriorating public finances, interest rates in the UK, the strength of global economic growth and global trade flows. These are looked at in greater detail below.

Although the UK has left the European Union, there remains considerable uncertainty around the final form that EU exit will take. The uncertainty around the outcome of the process since the EU Referendum in June 2016 has negatively affected the UK and London's economic growth and productivity. This is from its impact on business and consumer confidence, and decisions in anticipation that the economy would be less open. The Government continues to be committed to a trade deal by the end of the year, despite most commentators viewing that as implausible. In the absence of movement in either negotiating partner's position there is a significant risk of substantial trade barriers which would have a large adverse impact on growth.

UK fiscal policy had loosened markedly at this year's Budget, and in the years prior to that as in the 2018 Budget the UK Government announced the end of austerity. Over the short, medium, and long term there are reasons to increase spending to ease the pressures on a range of public services, support the aging population, and improve infrastructure. The Chancellor of the Exchequer's announcements to commit additional expenditure to support households and businesses through the COVID-19 crisis will add markedly to the existing debt burden. The Government is likely to be no longer on track to meet its fiscal targets despite their revision at the time of the Budget. The risk remains that the UK's debt rating could be downgraded further by international ratings agencies, which could lead to higher borrowing costs, and interest rates. This is especially so if the UK economy does not recover over the next few months as expected. It could also have a knock-on effect on public spending and, consequently, economic growth.

Another risk to the economic outlook is in the rate of increase in UK interest rates. The Bank has an ambition to 'normalise' rates away from the current ultra-low level. Inflation remains subdued at the present time, and high unemployment is likely to constrain wage pressures. However, the UK is an open economy, and the likelihood of a hard EU exit, or a loss of confidence in UK government policies might lead to a flow of currency out of the UK, an exchange rate depreciation, and 'importing' of inflation. Two large unknowns are how Brexit may be resolved, and the extent to which substantial spending commitments might be funded – both unknowns could lead to higher interest rates. On the downside, if interest rates rise too quickly, the impact on demand could dampen the rate of economic growth. However, on the upside, if interest rates rise gradually and therefore remain at historically low levels for some time, the relatively low borrowing costs can encourage investment and consumption which could support the economy in the short term. Over the longer term the costs of bringing inflation under control might be higher.

In addition to these UK-level risks, there are also concerns about the strength of global economic growth. As noted in Section 3.3, the IMF is expecting a global recession in 2020, something not seen during the 2008 financial crisis. A speedier recovery across the European, US, and world economies would be of benefit to London and the UK through enhanced trade flows. There are other downside risks for the global economy which are discussed below. If they materialised, this could lead to the global economy expanding at a disappointing rate, which in turn could adversely affect the UK economy.

As has been highlighted for about a decade now, structural problems continue to affect the Eurozone and could reappear to cause further problems for its members. Unity has been tested with an initial reluctance on the part of northern European states to support financially their southern counterparts through the worst of the COVID-19 crisis – a one size monetary policy across the Eurozone did not appear to fit all. The

German Constitutional Court has declared quantitative easing illegal despite support for the policy from economists, and the notionally superior European Court of Justice. Still, as European economies ease lockdown restrictions recovery should reduce tensions.

Financial vulnerabilities appearing in some economies such as China, and capital flight from emerging economies, also remain a concern. While the direct impact of a Chinese financial crisis on London may be limited, London's role in the global financial system means that the capital's economy could still be negatively affected indirectly. A number of other systemically important countries, including the US and UK, have large sovereign debts, where a loss of confidence might also trigger a crisis. At the time of writing, though, efforts to restore the balance sheets of banks since the 2008 financial crisis appear to have been successful in maintaining the smooth functioning of financial markets.

A further trade-related downside risk is the increasing inward-looking, protectionist policies coming from the US in particular. One consequence is a trade war with China. This has been exacerbated by comments by the US president, Donald Trump, apportioning blame for COVID-19. The emerging effects are a noticeable slowing of global growth, and a marked reduction in global trade flows.

Finally, there is a risk associated with geopolitical uncertainty. Any conflicts or sanctions have the potential to dampen or reverse country or regional growth, which in turn could have wider effects depending on how globally interconnected the relevant countries or regions are. For instance, in the news last year were the detrimental economic and political effects for Iran of US sanctions.

Overall the immediate risks to the economic outlook for the UK and for London are dominated by recovery from the COVID-19 outbreak and remain on the downside.

3.5 Conclusion

This chapter described the recent performance of the London, UK and world economies. The momentum of the world, UK, and London economies had been slowing as growth in global trade flows eases, and uncertainty around the final form of Brexit acts as a drag on the UK and London economies. This year there has been a transformation in outlook with the spread of COVID-19 as the world economy heads for recession, which few countries are expected to avoid.

This year is likely to see the deepest recession in the UK for over 120 years. It is also expected in most forecasts that there will be a recovery in 2021. What is less clear is how quickly the economy will recover, as this will depend, in part, on the effectiveness of policy interventions. The picture for London is also not clear, and nor is it known how it is performing relative to the UK economy.

COVID-19 is likely to have exacerbated existing weaknesses in the world and UK economies. There are threats of financial vulnerabilities in some economies, especially emerging economies which have suffered from huge capital outflows. Policies continue to become more protectionist, especially in the US. Productivity growth remains low in the UK economy, and it suffers from low capital investment in part down to uncertainty. The uncertainty is heightened by the lack of clarity around the UK's future trading relationship with the EU.

Still the Bank of England and OBR scenario-based forecast produced by GLA Economics using our new forecast model (Box 3.3) suggests a recovery over the next few years although with significantly negative growth in this year.

Box 3.3: The new GLA Economics medium-term forecast models for London's economy: A non-technical summary

Since 2003, GLA Economics (GLAE) has published medium-term forecasts for real GVA, real GVA by industry, workforce jobs, workforce jobs by industry, household income, and household expenditure for London through this release twice a year.

GLAE started producing its own modelling of the London's economy in year 2015. Previously, from 2007, GLAE forecasts were produced using an econometric model created by the economic consultancy Volterra Partners-UK while, between 2003 and 2006, these forecasts were directly provided by the economic consultancy Experian-UK.

After four years using the same techniques, a new approach has been recently applied to London forecasts since the 'London's Economic Outlook – Autumn 2019' release. This update of the methodology aims to improve both the accuracy and the robustness of the GLAE estimates. In particular, the revision consists of incorporating the following elements into the forecasting process:

1) New model specifications.
2) New econometric techniques.
3) New data sources.
4) Omitted relevant variables.
5) Additional robustness checks.

A thorough review of the relevant economic literature and an analysis of the econometric alternatives resulted in Vector Autoregressive (VAR) techniques[66] being found as the most suitable candidate for the GLAE forecasts of London's economy. VAR modelling is a forecasting method which consists in a multi-equation system where dependent variables are affected by their past but also depend on the past of other independent variables within the model. It has been a popular forecasting method for decades in macroeconomics, where the historic series of a variable is usually relevant to predict the same variable or even other variables in the future. As a result, the new GLAE models have improved forecasting accuracy between 66% and 71%, on average, for London's real GVA and London's workforce jobs when compared to the old econometric models. This improvement reaches between 53% and 61% for forecasts of household real income and household real expenditure in London. By London industries, results are more volatile but the smallest average improvement is 37%.

Looking at the performance against actual data, the new GLAE forecasts show between 20% and 23% absolute error, on average, for the headline models. Due to the higher variance in the raw data, this error increases from 30% to 60%, on average, when forecasting real GVA or workforce jobs by industries in London. There is no consensus in the literature on how to interpret error percentage figures objectively, but the only comparable forecasts – from an authoritative external forecaster - do not perform better overall than the new GLAE forecasts.

Further improvements in the performance of GLAE forecasts for London's economy will narrowly depend on overcoming limitations such as a regional economic data series being often unavailable, insufficient in

[66] With the exception of the forecast model for London household income where a Multiple Linear Regression method was found to perform above the other candidates.

terms of historic data or released with a long delay, especially for the case of variables other than GVA and workforce jobs.

Although achieving these improvements might be particularly challenging in periods of high-uncertainty (such as the present year), regardless of the econometric approach chosen, GLAE will not weaken our efforts to ensure that our forecast models are in line with best practice while the quality of London economic statistics and the forecasting methodology used remain at the highest standards.

Further technical detail on these new GLAE forecast models for London's economy is available in the following publication: 'The new GLA Economics forecast models for London's economy, GLAE Working Paper 98, June 2020'.

4. The GLA Economics forecast

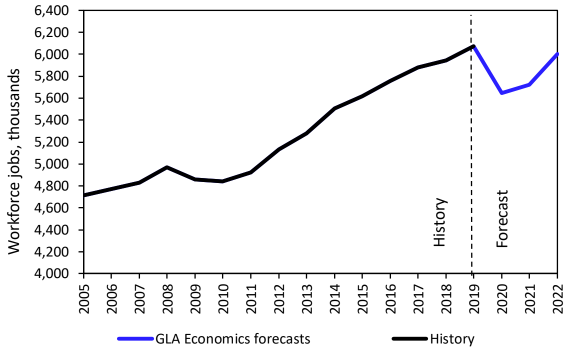
For business planning (for example, the likely course of revenue), estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections (this forecast) provide these estimates. It is thus necessary to distinguish carefully between the GLA's long-term employment projections and this forecast. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points, whereas business planning requires estimates of actual numbers. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for the historic data in the following tables and charts is GLA Economics modelling using ONS data.

4.1 Results

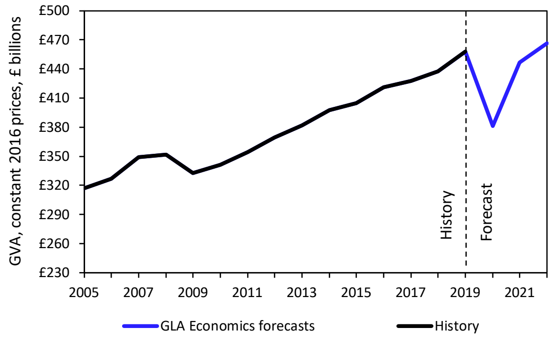
The results presented below are conditioned on the COVID-19 economic scenarios published by the Bank of England in their May 2020 Monetary Policy Report[67] and the OBR[68] in April[69]. Having noted that and to put these results in context London's economic output had been growing every year since 2010. This expansion has now halted but is expected to resume next year, before growing at a more moderate pace in 2022. Employment growth is predicted to be negative this year before resuming in 2021 and being quite strong in 2022. Household income and spending are also expected to fall this year before picking up again later in the forecast period.

Figure 4.1: Trend and scenario-based forecast employment and output

Employment



Output



Source: GLA Economics estimates for historic data and GLA Economics' calculations for the scenario-based forecast

Table 4.1: Scenario-based forecast and historical growth rates
(Annual % change)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
GVA	4.2	1.9	4.0	1.6	2.3	4.6	-16.8	17.2	4.5
Workforce jobs	4.3	2.0	2.5	2.1	1.1	2.2	-7.0	1.4	4.9
Household spending	7.1	3.3	5.0	1.4	1.4	1.4	-11.9	1.9	5.7
Household income	5.0	8.4	3.0	2.8	2.1	1.4	-5.5	0.8	4.5

Table 4.2: Scenario-based forecast and historical levels
(constant year 2016, £ billion except jobs)

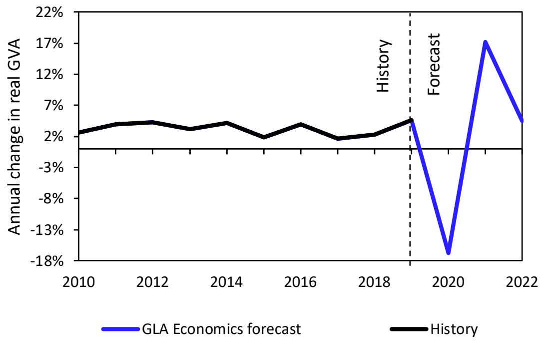
	2014	2015	2016	2017	2018	2019	2020	2021	2022
GVA	397.5	404.9	421.0	427.8	437.6	457.8	381.1	446.4	466.6
Workforce jobs (millions)	5.51	5.62	5.76	5.88	5.94	6.07	5.65	5.72	6.00
Household spending	171.8	177.6	186.8	189.5	192.2	194.9	171.7	175.0	185.0
Household income	202.2	220.8	227.5	234.2	239.3	242.8	229.4	231.3	241.7

[67] Bank of England (2020). '[Monetary Policy Report and Interim Financial Stability Report – May 2020'.](#)
[68] OBR (2020). '[Coronavirus reference scenario](#)'. April 2020.
[69] It should also be noted that this scenario-based forecast also incorporated all available information for the impact of COVID-19 on the economy in Q1 and Q2 2020 that was available at the time of production.

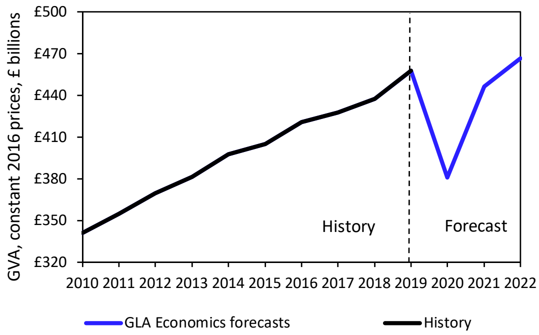
Output
(London GVA, constant year 2016, £ billion)

London's real GVA is expected in this scenario-based forecast to fall this year by 16.8% before growing in 2021 and 2022 by 17.2% and 4.5% respectively.

Annual growth (%)



Level (constant year 2016, £ billion)



Growth (annual %)						Level (constant year 2016, £ billion)				
	2019	2020	2021	2022			2019	2020	2021	2022
GLA scenario-based forecast	4.6	-16.8	17.2	4.5		GLA scenario-based forecast	457.8	381.1	446.4	466.6

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
4.6	7.2	3.2	1.1	4.1	2.4	7.3	3.0	6.9	0.7	-5.5	2.6	4.0	4.2	3.2	4.2	1.9	4.0	1.6	2.3	4.6

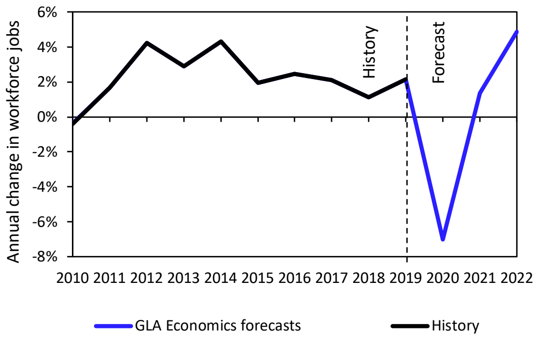
History: Level (constant year 2016, £ billion)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
237.1	248.1	265.9	274.3	277.4	288.8	295.7	317.3	326.7	349.4	352.0	332.5	341.0	354.6	369.7	381.6	397.5	404.9	421.0	427.8	437.6	457.8

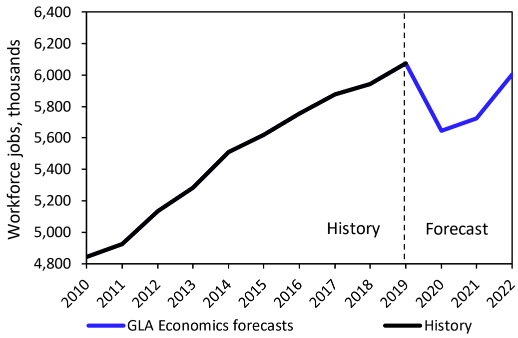
Employment
(London workforce jobs)

London's employment is forecast to see large falls and rebounds over the forecast period in this scenario. The rates of growth are predicted at -7.0% in 2020, 1.4% in 2021, and 4.9% in 2022.

Annual growth (%)



Level (million of workforce jobs)



Growth (annual %)						Level (millions of workforce jobs)				
	2019	2020	2021	2022			2019	2020	2021	2022
GLA scenario-based forecast	2.2	-7.0	1.4	4.9		GLA scenario-based forecast	6.07	5.65	5.72	6.00

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
3.8	3.8	0.5	-1.4	0.5	-0.4	2.0	1.2	1.2	2.9	-2.3	-0.4	1.7	4.3	2.9	4.3	2.0	2.5	2.1	1.1	2.2

History: Level (millions)

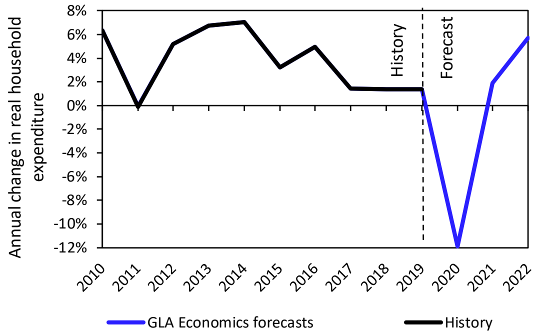
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
4.32	4.49	4.66	4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.88	5.94	6.07

Household expenditure

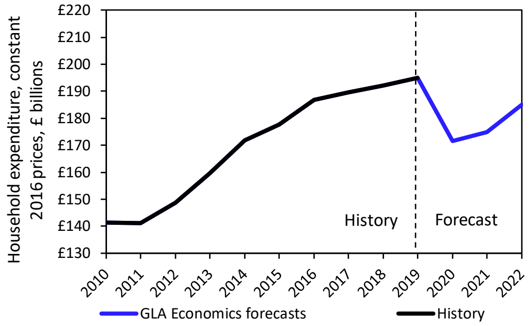
(London household spending, constant year 2016, £ billion)

Growth in London's household spending is forecast to be negative in this scenario this year before rebounding over the rest of the forecast period, -11.9% in 2020, 1.9% in 2021 and 5.7% in 2022.

Annual growth (%)



Level (constant year 2016, £ billion)



Growth (annual %)						Level (constant year 2016, £ billion)				
	2019	2020	2021	2022			2019	2020	2021	2022
GLA scenario-based forecast	1.4	-11.9	1.9	5.7		GLA scenario-based forecast	194.9	171.7	175.0	185.0

History[70]: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
6.4	-0.1	5.2	6.8	7.1	3.3	5.0	1.4	1.4	1.4

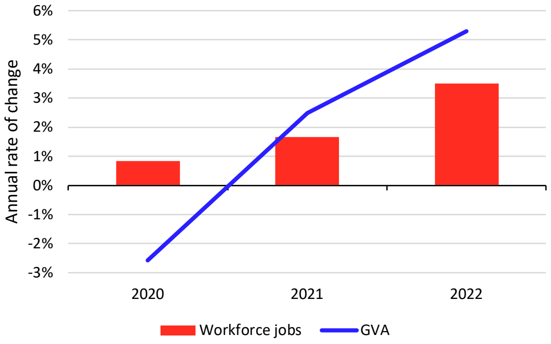
History[71]: Level (constant year 2016, £ billion)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
132.3	141.3	141.2	148.8	159.6	171.8	177.6	186.8	189.5	192.2	194.9

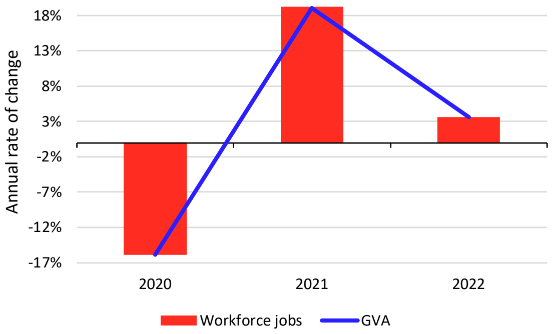
[70, 71] Household expenditure historic series for London are based on ONS data and start in 2009.

Output and employment growth by sector (% annual changes)

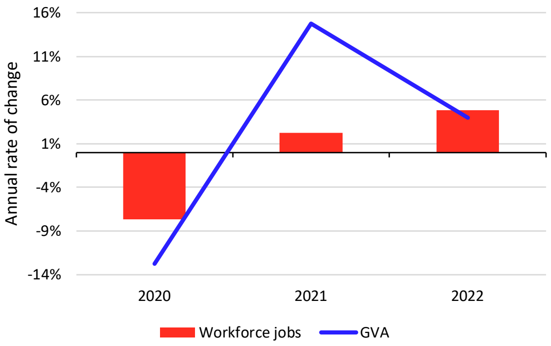
Financial services



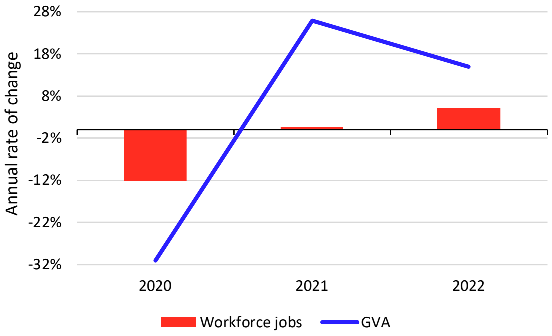
Business services



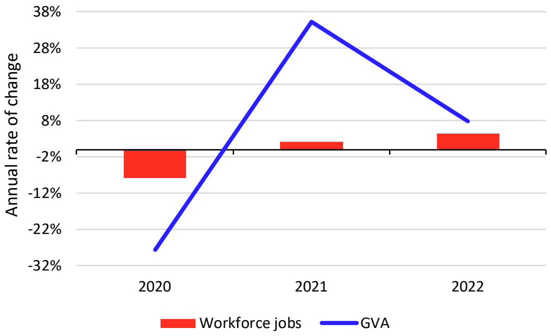
Finance and business (combined)



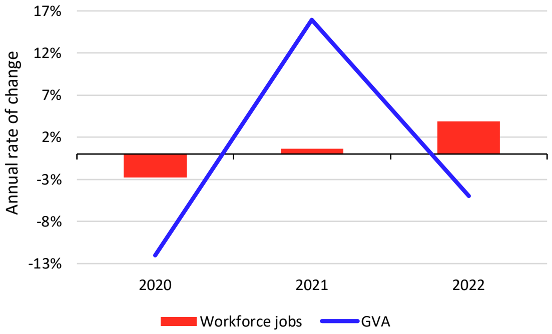
Distribution, accommodation and food service activities



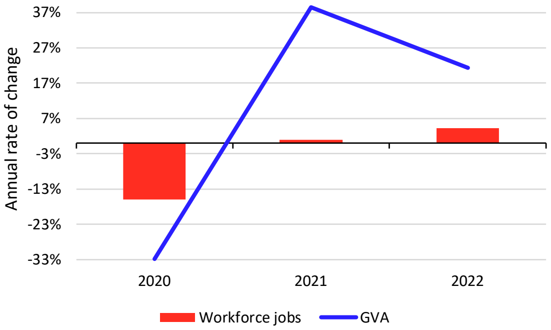
Transportation and storage



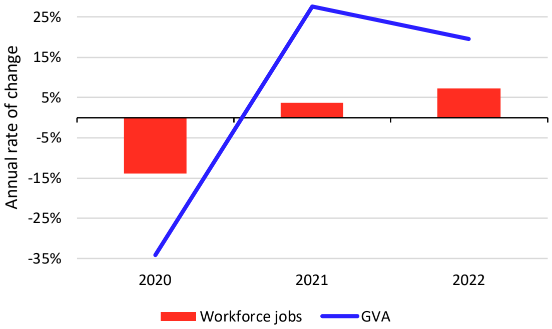
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector (% annual change)

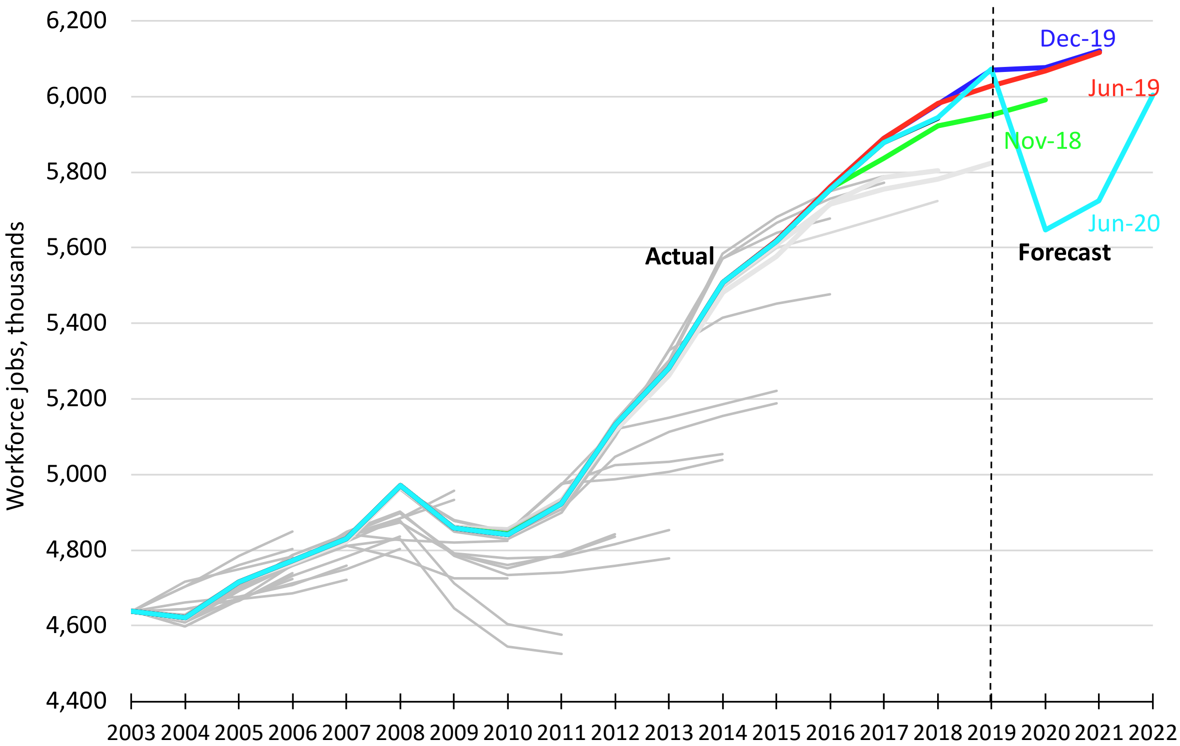
	2020	2021	2022
Financial services			
Output	-2.6	2.5	5.3
Employment	0.8	1.7	3.5
Business services			
Output	-15.9	19.1	3.6
Employment	-9.3	2.4	5.1
Financial and business services combined			
Output	-12.8	14.7	4.0
Employment	-7.7	2.3	4.9
Distribution, accommodation and food service activities			
Output	-31.1	25.9	15.0
Employment	-12.2	0.7	5.2
Transportation and storage			
Output	-27.6	35.3	7.9
Employment	-7.8	2.3	4.5
Other (public & private) services			
Output	-12.0	16.0	-4.9
Employment	-2.8	0.7	3.9
Manufacturing			
Output	-32.8	38.4	21.4
Employment	-16.0	1.0	4.3
Construction			
Output	-34.1	27.6	19.5
Employment	-13.9	3.8	7.3
(Memo: non-manufacturing)			
Output	-16.5	16.8	4.2
Employment	-6.8	1.9	4.9

4.3 Comparison with previous forecasts

This section compares the current scenario-based forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparisons in Figures 4.2 and 4.3.

For the whole forecast period (2020-2022), the most recent GLA Economics scenario-based forecast for the level of London's workforce jobs (which for this forecast is scenario-based) is lower than the December 2019 forecast. In terms of the annual growth rate, the most recent forecast is lower for this year but notably higher for 2021 when compared to the previous GLA Economics estimates.

Figure 4.2: Employment – latest scenario-based forecast compared with previous forecasts (millions of workforce jobs)



Note: the grey lines show levels of employment given historic GLA Economic forecasts of employment growth rates. The last four GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 4.3[72]: Comparisons with previous published forecasts
(London workforce jobs, % annual growth)

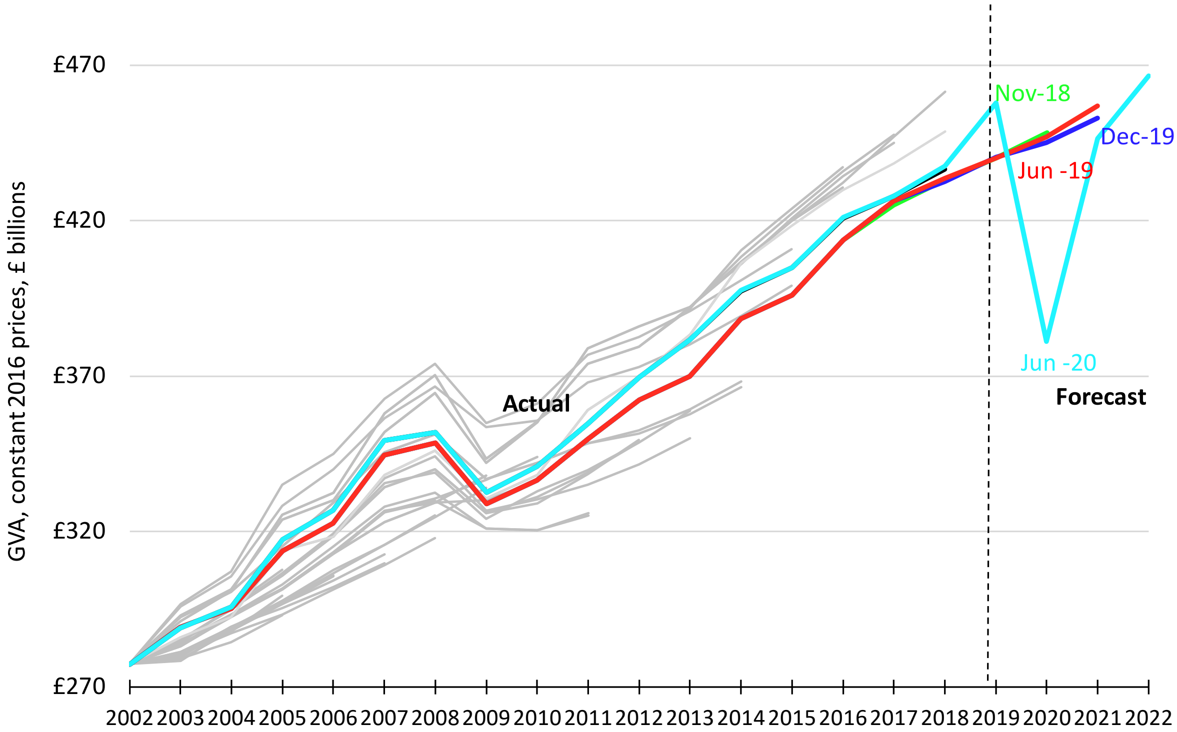
Forecast	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Jun 2020	**1.2%**	**2.9%**	**-2.3%**	**-0.4%**	**1.7%**	**4.3%**	**2.9%**	**4.3%**	**2.0%**	**2.5%**	**2.1%**	**1.1%**	**2.2%**	**-7.0%**	**1.4%**	**4.9%**
Dec 2019													1.5%	0.1%	0.7%	
Jun 2019													0.8%	0.7%	0.8%	
Nov 2018												1.5%	0.5%	0.7%		
May 2018												0.6%	0.3%	0.7%		
Nov 2017											1.4%	0.3%	0.5%			
Jun 2017											0.7%	0.5%	0.7%			
Nov 2016										2.5%	1.2%	0.3%				
May 2016										0.7%	0.7%	0.7%				
Nov 2015									1.7%	1.2%	0.7%					
May 2015									1.7%	1.2%	0.7%					
Nov 2014								4.5%	1.2%	0.7%						
May 2014								1.6%	0.7%	0.5%						
Nov 2013							1.3%	0.8%	0.7%							
Jul 2013							0.6%	0.7%	0.7%							
Nov 2012						1.0%	0.2%	0.4%								
Jun 2012						0.2%	0.4%	0.6%								
Nov 2011					0.1%	0.4%	0.4%									
May 2011					0.1%	0.7%	0.8%									
Oct 2010				-0.6%	0.6%	1.0%										
Jun 2010				-0.8%	0.8%	1.1%										
Oct 2009			-3.4%	-2.3%	-0.6%											
Apr 2009			-3.8%	-2.2%	-0.4%											
Oct 2008		-0.7%	-1.1%	0.0%												
May 2008		-0.3%	-0.1%	0.1%												
Oct 2007	1.2%	0.9%	1.0%													
Apr 2007	1.2%	1.4%	1.5%													
Oct 2006	1.1%	1.1%														
Apr 2006	0.8%	1.1%														
Oct 2005	0.8%															
Apr 2005	1.1%															

Source: Various London's Economic Outlooks

[72] This table only reports forecasts for 2007 onwards unlike Figure 4.2. For earlier GLA Economics' forecasts please see previous editions of London's Economic Outlook.

The most recent medium-term scenario-based forecast for London's GVA level (which for this forecast is scenario-based) is lower than the November 2019 forecast. In terms of annual growth rates, the latest forecast is far lower for 2020 and far higher for 2021.

Figure 4.3: Output – latest scenario-based forecast compared with previous forecasts (constant year 2016, £ billion)



Note: the grey lines show levels of GVA given historic GLA Economic forecasts of GVA growth rates. The last four GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 4.4[73]: Comparisons with previous published forecasts
(London GVA, % annual growth)

Forecast	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Jun 2020	**6.9%**	**0.7%**	**-5.5%**	**2.6%**	**4.0%**	**4.2%**	**3.2%**	**4.2%**	**1.9%**	**3.9%**	**1.6%**	**2.1%**	**4.6%**	**-16.8%**	**17.2%**	**4.5%**
Dec 2019													1.8%	1.1%	1.8%	
Jun 2019													1.5%	1.6%	2.2%	
Nov 2018												1.9%	1.6%	1.9%		
May 2018												1.6%	1.9%	2.2%		
Nov 2017											2.1%	1.8%	2.6%			
Jun 2017											2.3%	2.4%	2.9%			
Nov 2016										2.8%	2.0%	2.3%				
May 2016										2.9%	3.4%	3.3%				
Nov 2015									3.4%	3.2%	2.7%					
May 2015									3.6%	3.2%	2.5%					
Nov 2014								4.8%	3.3%	3.1%						
May 2014								3.8%	3.2%	2.6%						
Nov 2013							2.2%	2.5%	2.5%							
Jul 2013							1.9%	2.4%	2.5%							
Nov 2012						0.9%	1.8%	2.4%								
Jun 2012						1.2%	1.9%	2.5%								
Nov 2011					1.4%	2.0%	2.4%									
May 2011					2.0%	2.6%	2.9%									
Oct 2010				1.6%	2.4%	2.9%										
Jun 2010				1.0%	2.8%	3.3%										
Oct 2009			-3.5%	-0.2%	1.5%											
Apr 2009			-2.7%	-0.2%	1.7%											
Oct 2008		0.8%	0.2%	1.9%												
May 2008		1.3%	1.8%	2.2%												
Oct 2007	3.3%	2.0%	2.6%													
Apr 2007	2.6%	2.8%	3.0%													
Oct 2006	3.0%	3.0%														
Apr 2006	2.6%	2.8%														
Oct 2005	2.6%															
Apr 2005	2.7%															

Source: Various London's Economic Outlooks

[73] This table only reports forecasts for 2007 onwards unlike Figure 4.3.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Throughout this report 'employment' refers to 'workforce employment' as defined in, the ONS publication *Labour Market Trends*. London's Economic Outlook: December 2003 and *The GLA's Workforce Employment Series* provide a more detailed explanation of this term.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

At the time of writing national statistics estimates of real regional GVA are available up to 2018 from the ONS[74]. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

Consumption refers to private consumption, otherwise known as household expenditure.

[74] ONS Regional GVA (balanced approach).

Appendix B: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
BoE	Bank of England
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
Fed	Federal Reserve
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HM Treasury	Her Majesty's Treasury
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
m	Million
MPC	Monetary Policy Committee
OBR	Office for Budget Responsibility
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
TfL	Transport for London

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