GLAECONOMICS

Forecast report

London's Economic Outlook: Spring 2022
The GLA's medium-term planning projections

June 2022

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Contents

1. Executive summary

GLA Economics' 40th London forecast[1] suggests that:

- London's real Gross Value Added (GVA) growth rate is forecast to be 4.5% this year due to the impact of the quarterly recovery from the COVID-19 crisis at the end of last year and beginning of this year feeding through into the annual data. This growth rate is expected to fall to 1.6% in 2023 due to the cost-of-living crisis before improving to 2.3% in 2024.
- London is forecast to see a rise in the number of workforce jobs[2] in 2022 (2.2% in annual terms) although this will moderate in 2023 (1.1%) and 2024 (1.2%).
- London's household expenditure is forecast to grow in all years of the forecast period, although household income is expected to fall this year due to rising inflation.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. Given the unprecedented uncertainty resulting from the COVID-19 crisis, the war in Ukraine and the cost-of-living 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 – for London's economy in the medium-term.

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

Annual growth rates (per cent)	2021[3]	2022	2023	2024
London GVA (constant 2019, £ billion)	8.5%	4.5%	1.6%	2.3%
Consensus (average of independent forecasts)		4.3%	2.0%	1.9%
London workforce jobs	0.3%	2.2%	1.1%	1.2%
Consensus (average of independent forecasts)		1.3%	1.4%	1.2%
London household expenditure (constant 2019, £ billion)	7.4%	5.2%	1.5%	2.5%
Consensus (average of independent forecasts)		5.0%	1.5%	2.5%
London household income (constant 2019, £ billion)	1.5%	-2.5%	2.2%	2.9%
Memo: Projected UK RPI[4] (Inflation rate)	4.0%	9.1%	5.7%	3.6%
Projected UK CPI[5] (Inflation rate)	2.6%	6.9%	3.8%	2.3%

Source: GLA Economics' Spring 2022 forecast

Following on from the impact of the pandemic, the UK economy has been struck by another shock in terms of the war in Ukraine and the associated impact this is having on an already existing cost-of-living crisis from the ongoing impact of the pandemic. This has put a damper on the recovery from the historic

[1] The forecast is based on judgements and 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 n°98, June 2020'.
[2] Unless stated otherwise, any reference to jobs in the main text refers to workforce jobs.
[3] Historic data for London's real GVA and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics forecast data.
[4] 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 (2022). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2022. Data for 2021 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics.
[5] 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 (2022). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2022. Data for 2021 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%.

economic crisis caused by the COVID-19 pandemic. In February the Government lifted all restrictions on freedom of movement and economic activity imposed over the previous periods to deal with the pandemic and in particular after the outbreak of the Omicron variant in December 2021. The impact of the first lockdown and subsequent easing are covered in the Autumn 2020 LEO[6]. The Spring 2021 LEO[7] covers the second and third lockdowns, while the Autumn 2021 LEO covers the impact of the pandemic in the second half of 2021[8]. At the time of writing, it is expected that no further restrictions will need to be imposed in order to deal with COVID-19. The forecast has been produced on the basis that there will be no further restrictions and a gradual recovery from the impact of the pandemic. It is a downside risk to the central scenario that a new variant may require the introduction of further control measures.

Despite the pandemic crisis receding it continues to have negative impacts on the global economy with lockdowns in China impacting global supply chains and contributing to the ongoing cost-of-living crisis. This crisis has been exacerbated by the war in Ukraine, which has seen disruption to global grain supplies and rising energy costs.

The disruption from the pandemic, the war in Ukraine and the associated cost-of-living crisis are major negative economic shocks following the large drop in activity caused by the initial phase of the pandemic. After contracting by 9.3% in 2020 the UK economy grew by 7.4% in 2021 despite further disruption due to the pandemic according to the Office for National Statistics (ONS). UK GDP growth however showed weakness in the first half of 2022. Thus, although over the first three months of the year UK GDP grew by 0.8% putting it 0.7% above its pre-pandemic levels[9], monthly GDP in April 2022 fell by 0.3% after falling by 0.1% in March[10]. The Accommodation and food services sector continued to recover strongly over the most recent period and is now 1.4% above its pre-pandemic level[11]. Jobs were lost during the downturn, but given the size of the decline in GDP the rise in UK unemployment was modest, with the unemployment rate rising to 5.2% in the last quarter of 2020, before declining to 3.8% in the three months to April 2022[12]. This was due largely to the Government's Coronavirus Job Retention Scheme, commonly known as the furlough scheme, which finished at the end of September 2021.There appears to have been little negative impact on the labour market at the end of the furlough scheme, although there is now evidence of applicant shortages in certain industries.

However, the impact of the pandemic with its disruption to global supply chains and lockdowns in major Chinese cities has combined with the economic disruption of the war in Ukraine, in particular to fuel and agricultural exports, to significantly boost inflation while global growth has slowed. This has led to a cost-of-living crisis in the UK with Consumer Price Index (CPI) inflation hitting 9.0% in the year to April 2022[13], while pay rises have lagged behind and employee National Insurance contributions have increased. There are fears of stagflation, with low growth and high inflation, and if this situation continues over the long-term normal policy measures will be constrained in their ability to address both issues. Even if as expected these inflationary pressures only continue to be felt throughout the rest of this year before abating in later years, it will put pressure on household income and consumption and thus growth.

The unprecedented measures introduced by the Government to support the economy through the pandemic and described in the Spring 2021 London's Economic Outlook (LEO)[14], have finished. In response to rising

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[6] GLA Economics (2020). 'London's Economic Outlook: Autumn 2020'. 7 December 2020.
[7] GLA Economics (2021). 'London's Economic Outlook: Spring 2021'. 25 May 2021.
[8] GLA Economics (2021). 'London's Economic Outlook: Autumn 2021'. 13 December 2021.
[9] ONS (2022). 'GDP first quarterly estimate, UK: January to March 2022'. 12 May 2022.
[10] ONS (2022). 'GDP monthly estimate, UK : April 2022'. 13 June 2022.
[11] ONS (2022). 'GDP first quarterly estimate, UK: January to March 2022'. 12 May 2022.
[12] ONS (2022). 'Labour market overview, UK: June 2022'. 14 June 2022.
[13] ONS (2022). 'Consumer price inflation, UK: April 2022'. 18 May 2022.
[14] GLA Economics (2021). 'London's Economic Outlook: Spring 2021'. 25 May 2021.

inflation the Bank of England has begun to raise interest rates, with further rises expected to counter the current inflationary pressures and bring it back to a stable path (Box 3.1 discusses this situation in more length). While there was a rapid recovery in the economy last year, supported by a successful vaccine roll-out, the Bank of England (BoE) expects a significant slowdown in the economy over the course of this year as the cost-of-living crisis bites[15].

Looking at London, our forecasts and the available economic indicators up to the point of writing suggest that the downturn in economic output is slightly less negative than the national one in this crisis[16]. However, although the decline in unemployment in the capital has been significant it still remains above the national rate. The unemployment rate in the capital fell from a high of 7.4% in January 2021 to 4.7% in March 2022. Although the full effects of the current inflationary pressures on the economy are still unknown the picture on indicators remains generally positive despite the challenging economic circumstances. All PMIs – business activity, new business, and employment – have stood at positive levels since March 2021 indicating growth after experiencing historic falls in 2020. House price expectations have remained positive and house prices have continued to rise and although consumer confidence in the capital has declined sharply it remains above the levels seen in the UK as a whole. Given this background, the GLA Economics reference scenario for London sees London's output slowing this year and into next year before growth recovers in 2024. Employment growth is expected to be slower than outputs (see Figures 1.1 & 1.2 and Chapter 5 for more detail). Still, real GVA in London returned to its pre-crisis levels – i.e., Q4 2019 – in Q4 2021 although workforce jobs will take until early 2023 to return to its pre-crisis levels (Figure 1.3). Our forecast assumes that some sectors will perform better than others with sectors such as Accommodation & food services, Arts, entertainment & recreation, and Accommodation and food services being more heavily hit by the cost-of-living crisis.

The expected path for recovery of both London and the UK economies is tied to a high level of uncertainty linked to the disruptive impacts from the aftermath of the pandemic and the course of the war in Ukraine. The strength of the economy over the coming year is particularly unpredictable – with significant downside risks from rising inflation, job mismatches, the UK trade deficit, reduced consumer expenditure, and supply chain blockages being particularly apparent, as set out in Box 3.1.

Beyond this, another risk to the UK economy (and therefore to this forecast) continues to be the impact of Brexit. There has been continuing acrimony around the implementation of the Trade and Cooperation Agreement (TCA), and there are other areas where disputes might flare up, which without careful management might lead to a trade war. The agreement does not cover the service sector, which represents 90% of London's economy. Given the importance of London's service exports to the EU, the UK's future relationship with the block in this regard will have a significant impact on London's economic outlook. However, as of yet, no significant progress has been made in this area. The introduction of non-tariff barriers (NTBs) may well also affect London's export-oriented service sectors in the long term, with evidence at a national level of their short-term disruption. Adverse effects from the restructuring of the economy are likely to continue over a period of years. For businesses that are also facing rising costs, Brexit further increases costs both in domestic and overseas markets (Box 3.2 says more on these issues).

A further UK risk is to the public finances from the borrowing needed to support public services and the economy through the COVID-19 crisis. With the Bank of England (BoE) raising interest rates to contain inflationary pressures, debt financing costs may rise to levels where they become unsustainable, although this is some way off. This would be exacerbated by further shocks to the economy such as has already

[15] Bank of England (2022). 'Monetary Policy Report – May 2022'. 5 May 2022.

[16] GLA Economics has been using ONS quarterly regional GDP estimates as its preferred measure for the state of London's output. This data is available to Q3 2021. Recently the ONS has released model-based early estimates of regional gross value added in the regions of England and Wales which is available to Q1 2022. This data is experimental and less established.

happened with the cost-of-living crisis. The Government would need to reduce spending, raise taxes, or both, with adverse effects for economic growth and investment. This brings with it further risks of stagnation. Although it should be noted at the moment the expectation is for interest rates to remain relatively low by historical standards having a limited impact on debt financing costs.

Outside of the cost-of-living crisis, COVID-19 and the ongoing fall out from Brexit, other global risks continue with potential effects on London's economy (Box 3.2 says more on the impact of Brexit so far). Firstly, there is a serious possibility of an increase in global protectionism which could be damaging to trade flows, or there might be a contraction of supply chains to make them more resilient especially in light of energy security concerns. Secondly, the UK's labour productivity growth remains weak and it is not expected to improve in the medium term due to the current crises and may be further damaged by long-term scarring from the pandemic. Thirdly, although other geopolitical risks outside of Ukraine are low, an intensification of the current regional conflicts in the world cannot be discarded. Finally, the international economic context remains highly volatile at this moment as well. Structural problems and macroeconomic imbalances remain in the Eurozone and the impact of the war in Ukraine and the pandemic may speed up the manifestation of negative consequences.

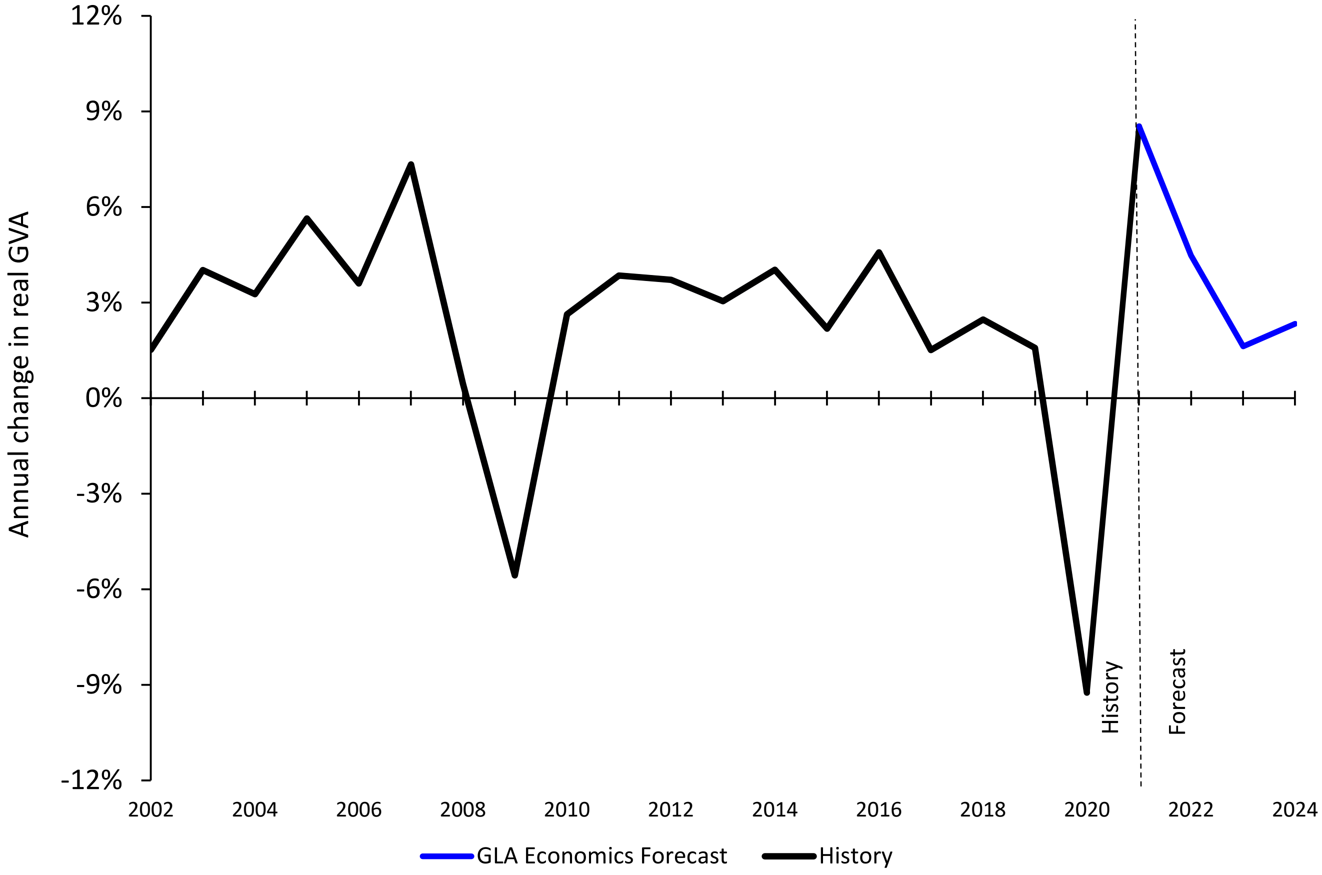
The fallout from the pandemic and the war in Ukraine is damaging all economies. The US economy contracted in the first quarter of this year while the Federal Reserve has raised interest rates to combat inflation with further rises expected this year. The Eurozone also faces inflationary pressures with signs of the economy slowing, while the expectations of the European Central Bank raising interest rates has increased. All of which indicates the size of the current crisis in the advanced economies, which have notably increased since the start of the year.

There remains a very high degree of uncertainty about the future path of the economy at the moment. In response GLA Economics has developed and continues to use macroeconomic scenarios[17] which have been updated regularly to maintain an up-to-date view on how the economy is evolving. What is clear is that the economic climate over the coming years will be highly uncertain. To reflect this uncertainty GLA Economics has also developed alternative scenarios on which it reports and these are shown in Chapter 5.

In conclusion, the global economic environment remains extremely uncertain due to the ongoing impact of the pandemic, the war in Ukraine and the cost-of-living crisis (as shown in the evolution of our London Forecast (Figures 1.4 & 1.5)). After seeing an unprecedented drop in output in 2020 there was a good recovery in London's output last year, but growth is expected to slow significantly this year (Figure 1.1). Most forecasters expect a slowdown in 2022, but London will return to pre-crisis levels in the medium-term (Figure 1.3). The unprecedented fiscal and monetary policies put in place by national and international public authorities mitigated some of the negative economic effects of the pandemic especially in terms of employment although future support and thus growth may be dampened (Figure 1.2). All sectors should continue to see growth although consumer facing sectors may well be hit by the cost-of-living crisis due to reductions in discretionary spending in response to high inflation. It can be anticipated that London's economy will not recover its previous 'normality' until the impacts of the pandemic and the war in Ukraine feed through the system.

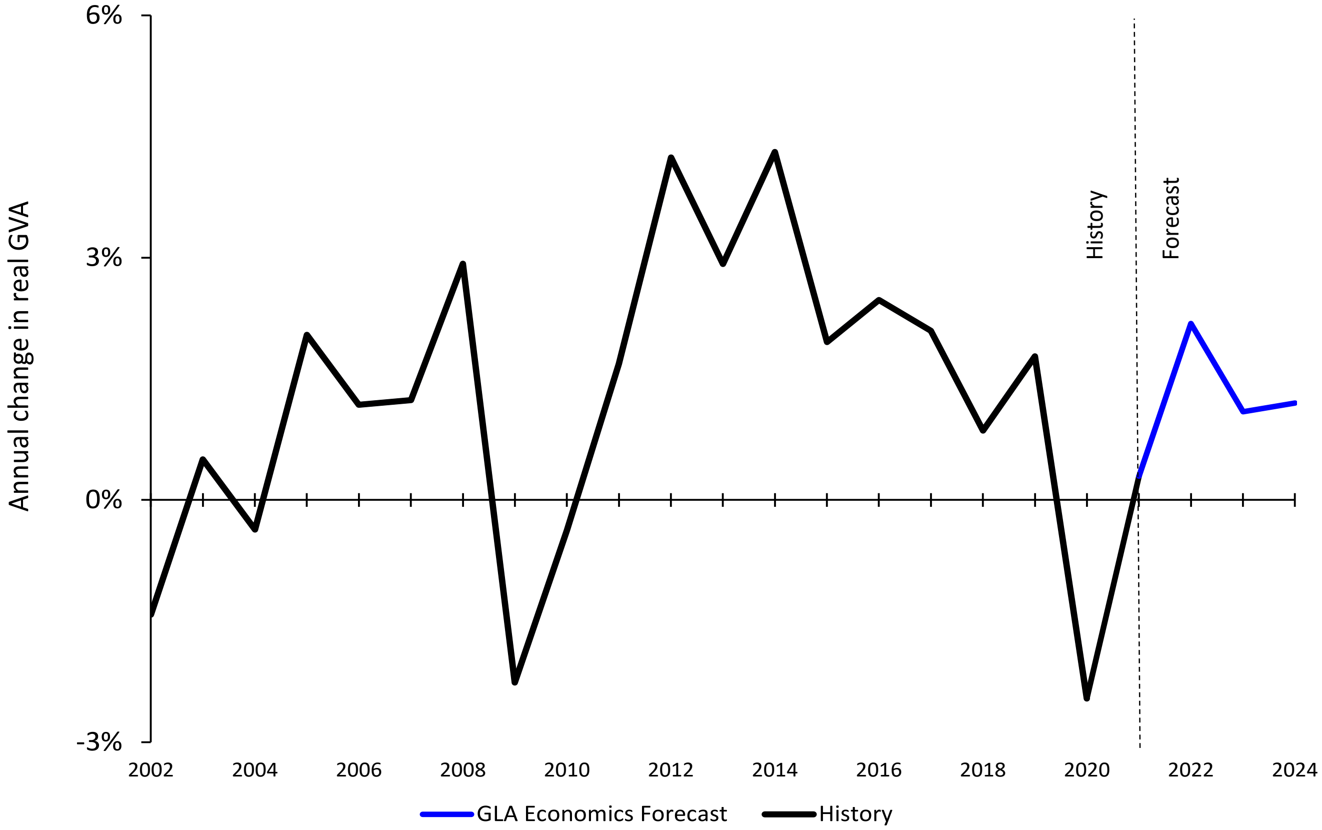
[17] London Datastore (2022). 'Macroeconomic scenarios for London's economy post COVID-19'.

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



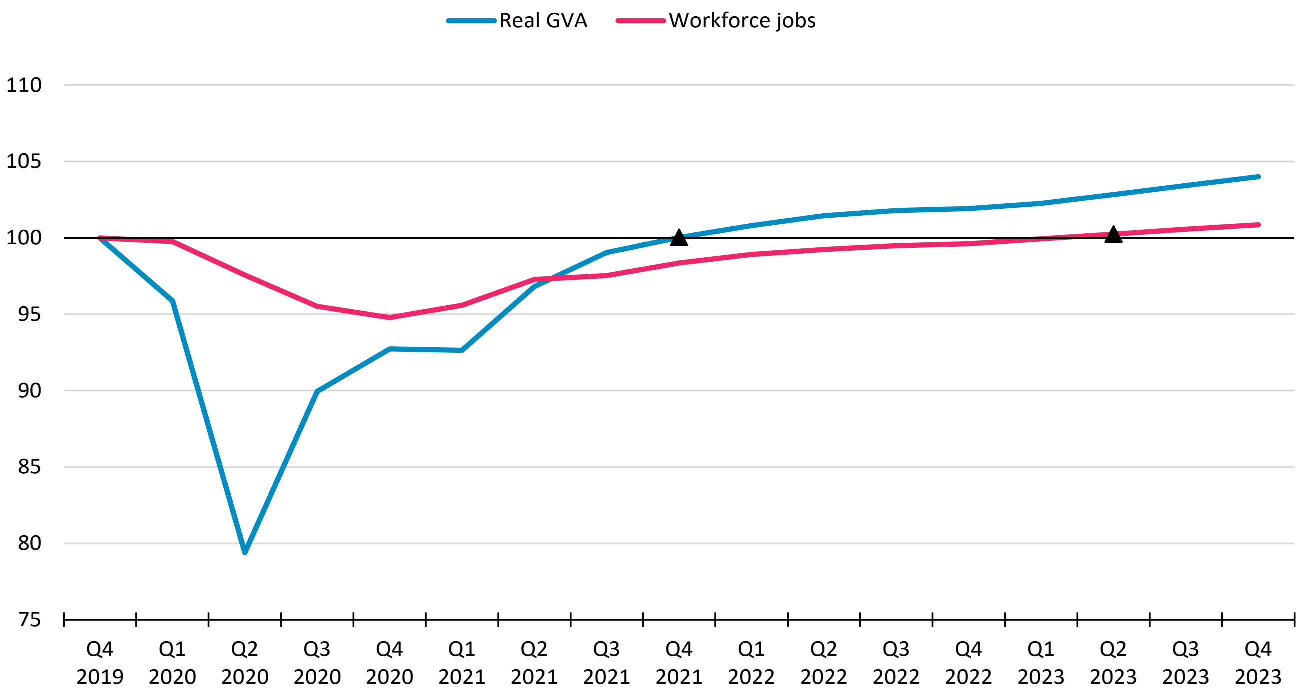
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

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



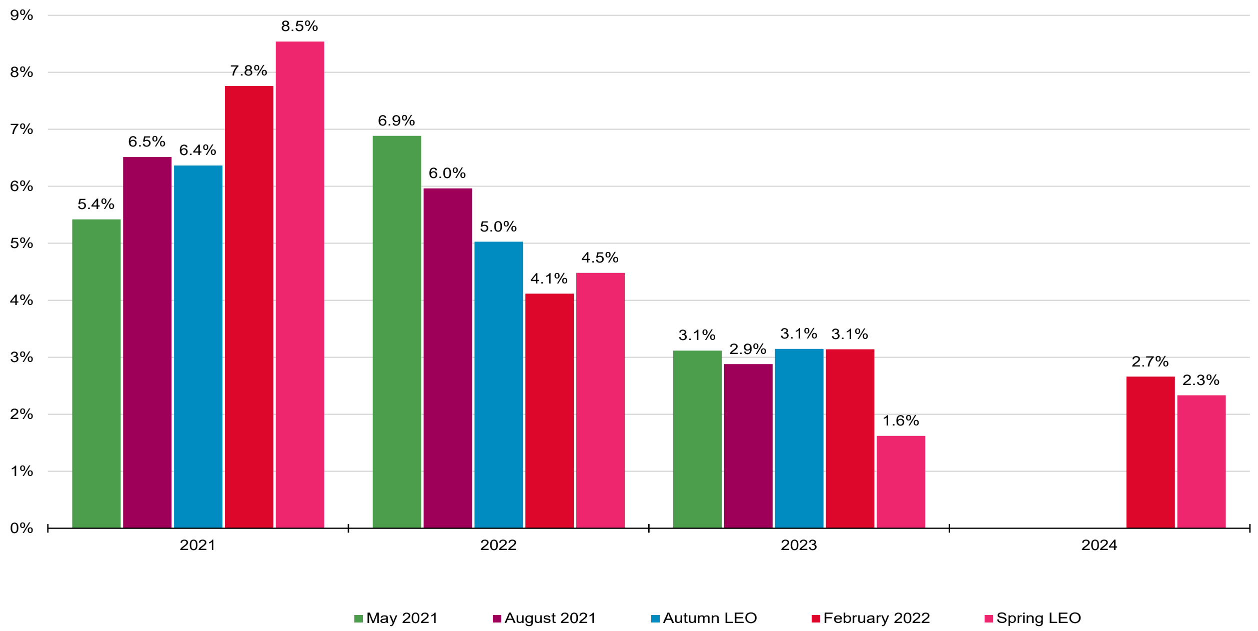
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

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



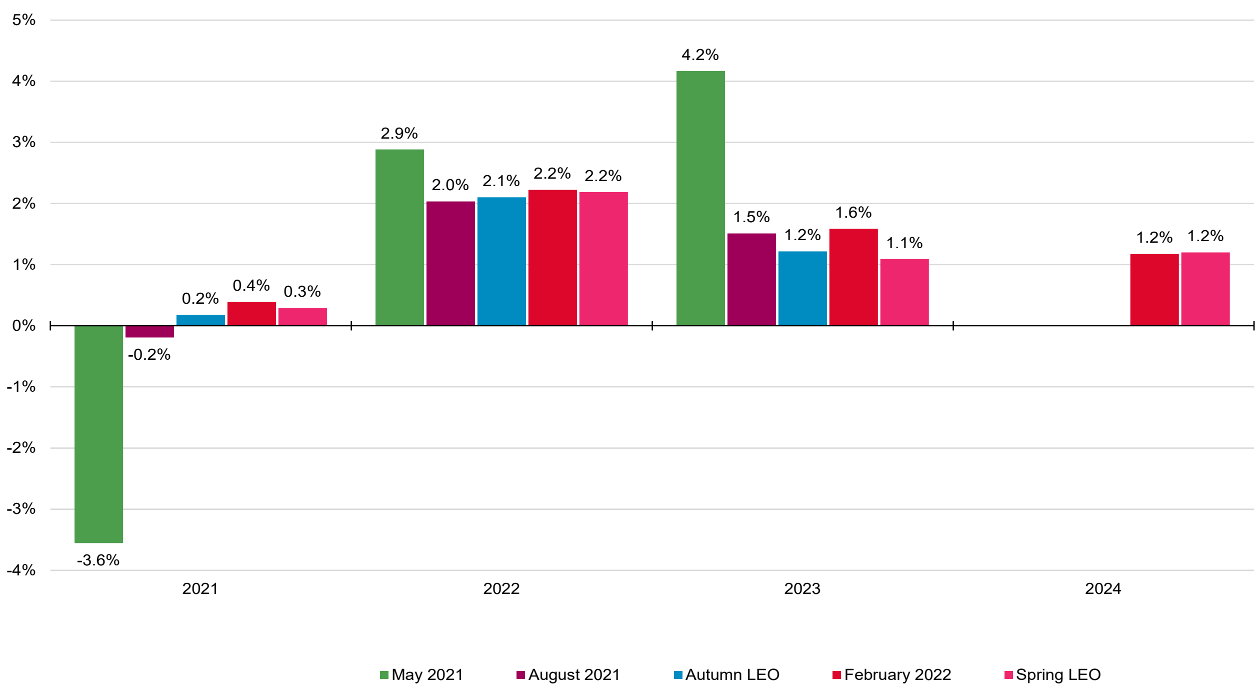
Source: GLA Economics

Figure 1.4: Development of reference scenarios for London annual real GVA growth rates 2021-2024



Source: GLA Economics

Figure 1.5: Development of reference scenarios for London annual employment growth rates 2021-2024



Source: GLA Economics

2. Introduction

The spring 2022 edition of London's Economic Outlook (LEO) is GLA Economics' 40th 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 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Chapter 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Chapter 5).

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[18]. Before that, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)[19]
- Experian Economics (EE)
- Oxford Economics (OE)

Economic forecasting is not a precise science. Further, these projections, unlike previous GLA Economics forecasts, are a scenario consistent with the BoE's COVID-19 forecast published in May[20] and OBR scenario published in March[21] 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.

[18] 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 can be found in Orellana, E. (2020) 'The new GLA Economics forecast models for London's economy', GLA Economics Working Paper 98.
[19] CEBR does not provide a forecast for household expenditure in London.
[20] Bank of England (2022), 'Monetary Policy Report – May 2022', May 2022.
[21] OBR (2022). 'Economic and Fiscal Outlook – March 2022', March 2022.

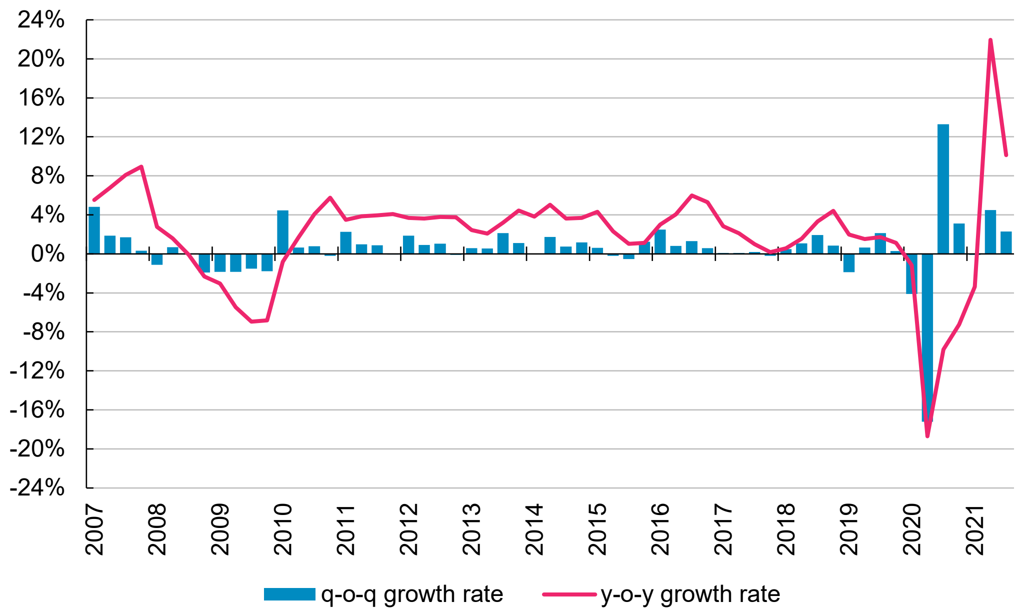
3. Economic background: After the pandemic London's recovery faces challenges from the cost-of-living crisis

This Chapter provides an overview of recent developments in the London, UK and world economies, as well as risks to the London economy.

3.1 London's economy

According to the latest regional data by the ONS, London's economy – as measured by real gross value added (GVA) – rose by 2.3% between Q2 2021 and Q3 2021, which is equivalent to an annual growth rate of 10.1% in the first quarter of the year. As can be observed from Figure 3.1, there was a very modest contraction of the quarter-on-previous-quarter (q-o-q) growth rate during the third lockdown in Q1 2021 and London's economy has since grown healthily. This is especially so when compared with the sharpest fall on record in Q2 2020 following the first lockdown. By Q3 London's economy remained 1.0% below its recent pre-pandemic peak in 2019 Q4. At this point the UK economy was 1.3% below its pre-pandemic level. There is more recent data available for the UK which indicates that it exceeded its pre-pandemic output in Q1 2022. Since the Autumn LEO, ONS has revised significantly its figures for London output over 2020, and its current estimates are that the path of London's output over the pandemic was similar to that of the UK, and not somewhat better as previously reported.

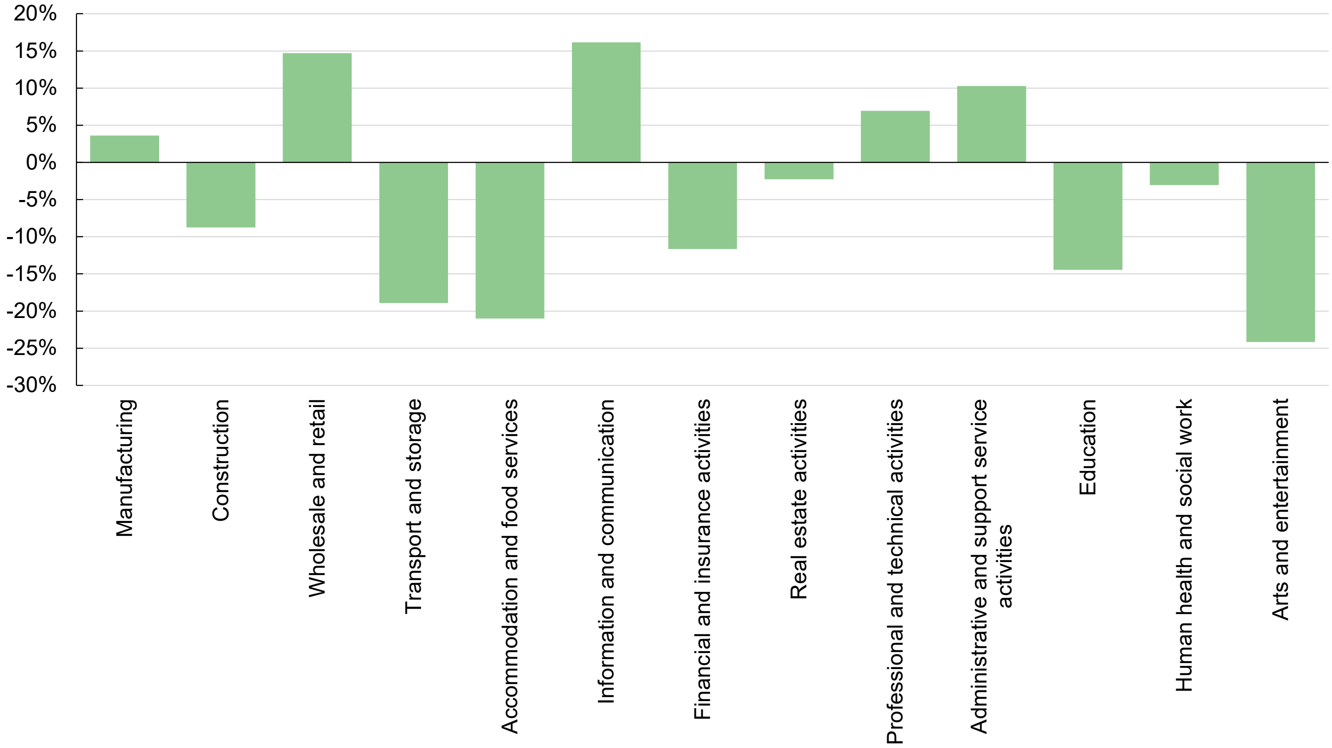
Figure 3.1: Real GVA in London (Q1 2007 – Q3 2021)



Source: GLA Economics based on ONS - UK regional GVA and GDP data.

As might be expected, the impact on output has been unevenly spread across sectors over the course of the pandemic. Across the UK there has been a shift in expenditure to goods, and workers in certain sectors in London have been relatively more able to work from home. Reflecting this, Figure 3.2 indicates that the main five industries in London – Information and communication, Wholesale and retail, Administrative and support services, Professional services, and Manufacturing - had reached their pre-pandemic levels of output by Q3 2021. Traditionally, London has specialised in Information and communication and Professional services, while other sectors in which it has specialised namely Finance and Real estate have done less well. The consumer-facing sectors of Accommodation and food services, and the Arts have done particularly badly, as has Transport.

Figure 3.2: Proportionate change in real GVA by industry* in London Q4 2019 – Q3 2021



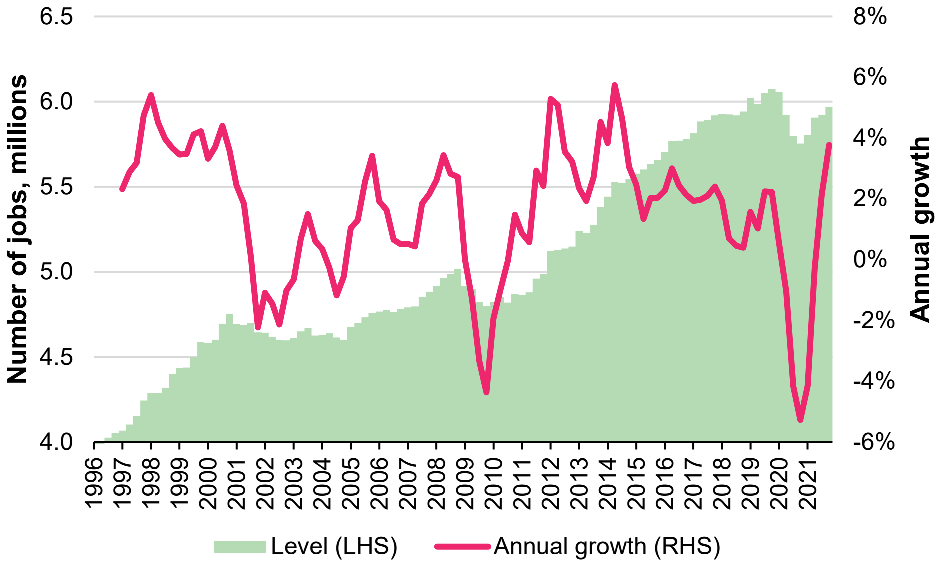
*Source: GLA Economics based on ONS – UK regional GVA and GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

While London's economy is through the downturn from the pandemic there will be a legacy on its structure, and future prospects from it, as well as from Brexit and the war in Ukraine. Box 3.1 discusses the ongoing effects of supply chain shortages and rising energy prices on Londoners and its economy. Box 3.2 looks at the impacts of the pandemic and Brexit on London's economy.

The latest data on London's labour market is for April 2022. The employment rate shows the percentage of residents aged 16-64 who are in work and stood at 71.2% in the three months to April 2022, down 0.6 percentage points on the year and 1.6 percentage points down from the three months to February 2020. The unemployment rate shows the proportion of the 16 and over resident population who are unemployed but are seeking and available for work and stood at 4.8% in the three months to April 2022, down 1.9 percentage points on a year earlier, and 0.3 percentage points higher from the three months to February 2020. For comparison, the UK's employment rate stood at 75.6% in the three months to April 2022 and the unemployment rate was 3.8%.

The trend in the number of jobs in London's economy has been less erratic than for output. The numbers of jobs had been falling gradually over 2020 before beginning to rise in 2021. Despite total workforce jobs rising from their low in Q4 2020, by Q4 2021 the number was 103,000 jobs lower than its pre-pandemic peak (Figure 3.3). The government's furlough scheme, officially known as the Coronavirus Job Retention Scheme, is credited with keeping workers attached to their employers during the crisis and has enabled employers to give work to existing employees as the economy picked up, saving on redundancy and recruitment costs. As the economy restructures, with jobs moving into sectors which have benefited from the pandemic such as Digital activities, it is expected that there will continue to be a loss of jobs from sectors which have done less well. Despite the end of the furlough scheme in September 2021 the number of jobs in London has continued to grow.

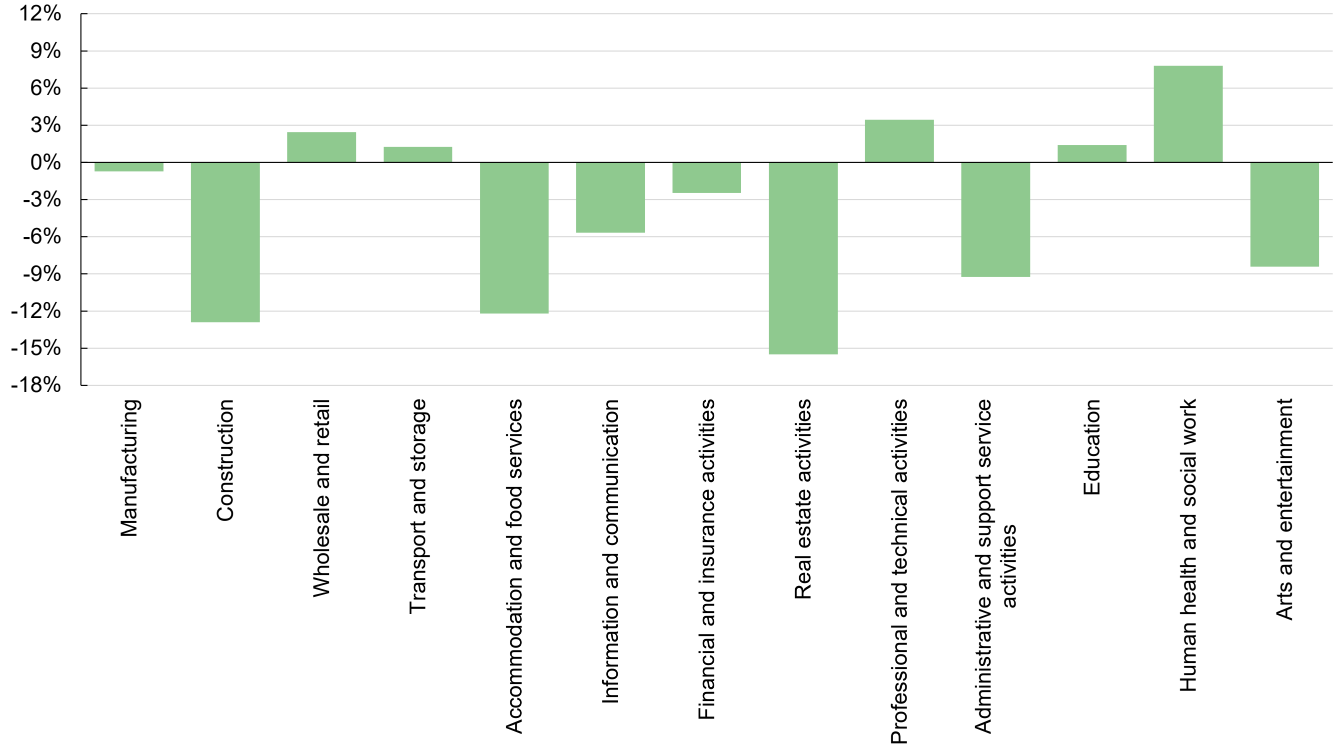
Figure 3.3: Number of workforce jobs in London
Last data point is Q4 2021



Source: ONS Workforce Jobs

There is also a mixed picture for the changes in workforce jobs over 2020 and 2021. Figure 3.4 indicates that there has been some jobs growth compared with the pre-pandemic period in Wholesale and retail, Transport and storage, Professional services, and Education and Health. In comparison, Construction, Accommodation and food services, and Real estate all shrank by over 10% during this period. This highlights the way the furlough scheme protected jobs in some, but not all, of the sectors most affected by the pandemic, and it is perhaps in some sectors with weaker employment protection that there have been the greatest job losses.

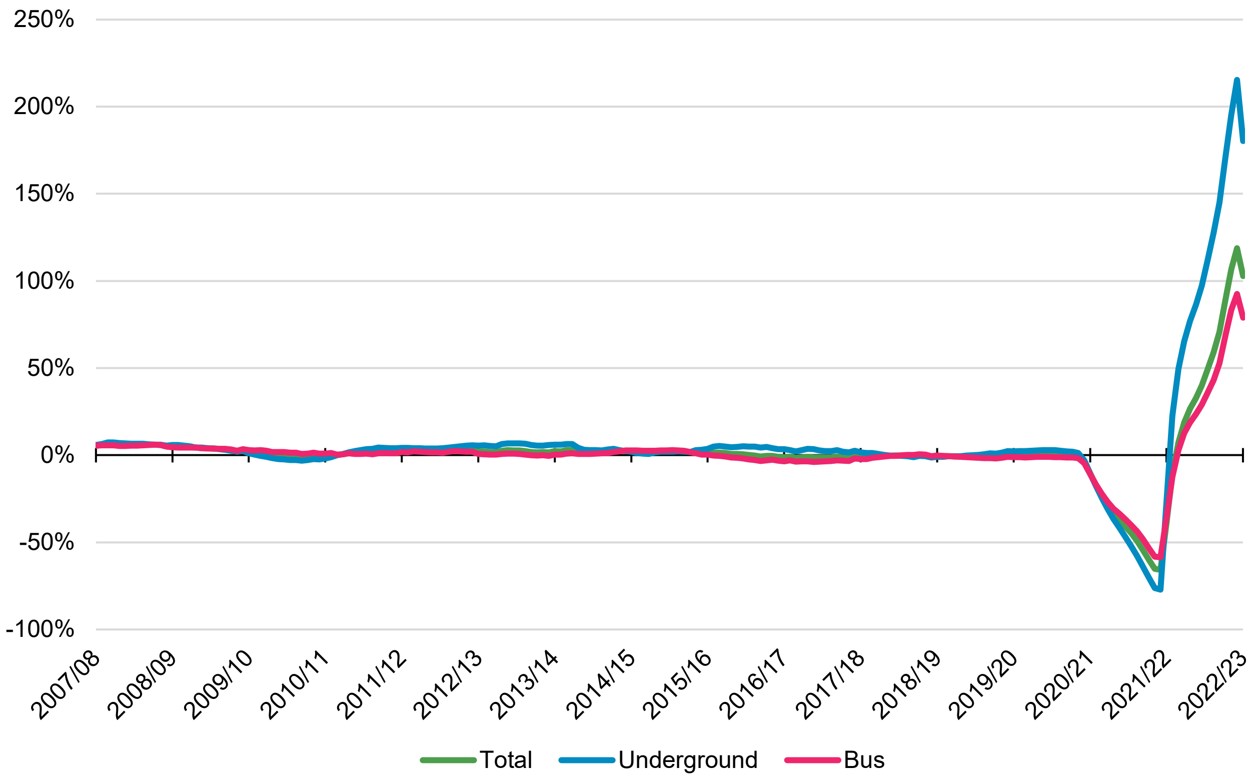
Figure 3.4: Proportionate change in workforce jobs by industry* in London Q4 2019 – Q4 2021



*Source: GLA Economics based on ONS – workforce jobs data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

In the context of the recovery from lockdowns, public transport use can be a handy indicator to track the state of the London economy. For example, more people travelling in London could reflect more people commuting to work because there are more jobs being undertaken at workplaces. Alternatively, it could reflect increased leisure activities, like shopping, which might indicate an increase in household spending. Having noted this, the variation of the 12-month moving average in total passenger journeys in London's public transport had been increasing throughout 2019 before starting to fall slightly by the end of that year and the beginning of 2020. However, this indicator sunk from March 2020 and has recently started to improve as demand for the use of public transport in London recovers from the pandemic lows (Figure 3.5). As a reference, in the period 1 April to 1 May 2022 the moving average of passenger journeys in London's public transport was double the equivalent period in the previous year but still 35% below pre-pandemic levels.

Figure 3.5: Variation (%) of the 12-month moving average in public transport passenger journeys in London



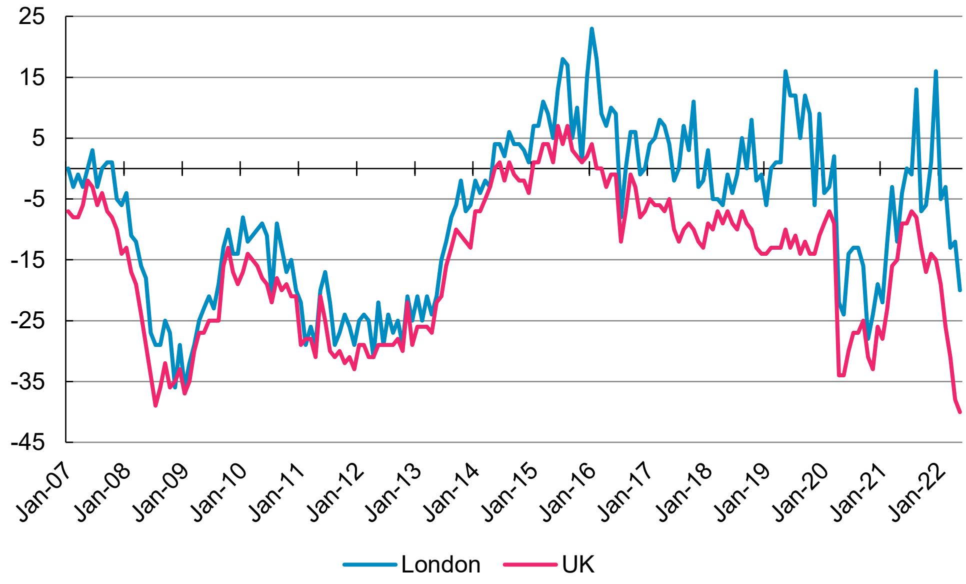
Source: GLA Economics based on Transport for London data. Last data point is the 30-day period ending on 1 May 2022.

The decline in transport mobility compared to pre-pandemic levels is one factor that negatively affects London's economy through lower spending in London's Central Activity Zone. The broader reduction in international travel has also had a bearing on spending. Other factors such as increased homeworking and the UK's future commercial relationship with the EU may all also have a role in explaining this.

The GfK Consumer Confidence Barometer, a consumer confidence index, is a reliable indicator to measure how private consumption in London is being affected by overall uncertainty[22]. Looking at this indicator, the virus outbreak and the consequent first lockdown caused consumer confidence in London to drop sharply in April and May 2020 (Figure 3.6). As the first lockdown eased in June 2020, this index recovered slightly for some months - although always remaining negative - but the second wave of infections and the announcement and subsequent introduction of the second lockdown sunk the London index to eight-year lows in October and November 2020. There has been some recovery since although sentiment had remained in negative territory until turning positive in November and December 2021. Sentiment became negative during the third wave of the pandemic and has worsened markedly as the cost-of-living crisis began to take effect. Still, data for London has remained less pessimistic than for the UK in terms of consumer confidence throughout the pandemic. The latest figures for the UK are the worst since records began, and worse than during the financial crisis and the pandemic.

[22] The GfK Consumer Confidence Barometer reflects people's views on their financial position and the general economy over the past year and the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Figure 3.6: GfK Consumer Confidence Barometer for London and the UK



Source: GLA Economics based on GfK-NOP data. Last data point is May 2022.

Another high frequency indicator that correlates strongly with economic activity is the Natwest Purchasing Managers' Index (PMI) survey, which focuses on the sentiment of businesses in London[23]. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators like workload and employment. PMI data in 2019 prior to the pandemic remained slightly above 50 on average - indicating slightly expanding conditions. With the emergence of COVID-19 these indicators were dragged down to all-time lows in March and April 2020. A rapid recovery started in May, continuing over the summer, before again turning negative with the autumn and winter lockdowns. However, with the easing of the third lockdown all the indicators again show an expansion of activity (Figure 3.7). In fact, PMI Business Activity and PMI New Business indices returned to growth in February 2021 with the PMI Employment Index doing so in March. Since then the indicators have continued to be at strong levels even during the third wave of the virus, and the onset of the cost-of-living crisis.

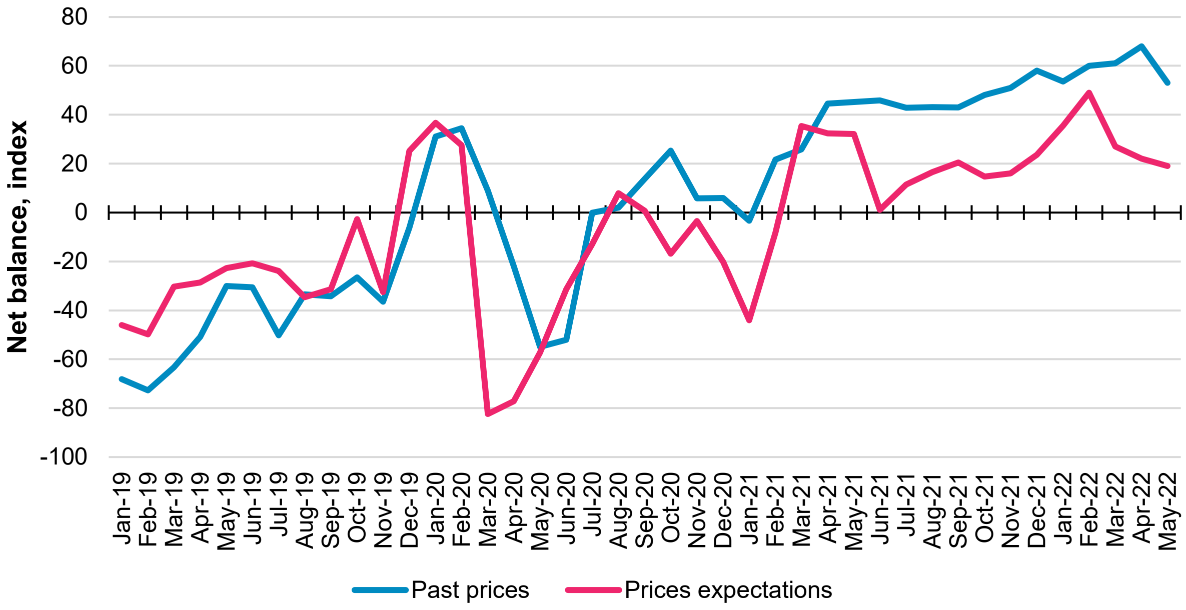
[23] PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading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

Figure 3.7: Natwest PMI Business Activity for London, New Business and Employment Indices

Source: GLA Economics based on IHS Markit data. Last data point is May 2022.

The housing market had been picking up prior to the onset of COVID-19 as house prices and expectations of house prices had been rising through 2019. There was volatility in both measures over 2020, and both were moving downwards in the latter part of that year reflecting worse economic news. However, there was a recovery in 2021 as the lockdown was eased following the vaccine roll-out (Figure 3.8). The rise in sentiment of price expectations has eased off since February this year, and in May for actual house prices. It is clear that housing has become more affordable for some households, who have built up savings over the pandemic. What is not known is the extent to which these savings might be used to purchase houses, or on other spending, and the extent to which the rising cost of living and inflation will cool demand.

Figure 3.8: RICS house prices net balance index for London, change during last three months
Last data point is May 2022



Source: GLA Economics based on RICS data. The net balance index measures monthly the proportion of property surveyors reporting a rise in prices minus those reporting a decline in the last three months.

Beyond the challenges that London's economy is facing this year and its unclear outlook, it seems evident that some economic scarring cannot be ruled out. It is less certain how the scarring will roll out over the sectors of the economy and if any lack of liquidity leads to closure of otherwise solvent firms, although the capital's hospitality sector may be particularly at risk.

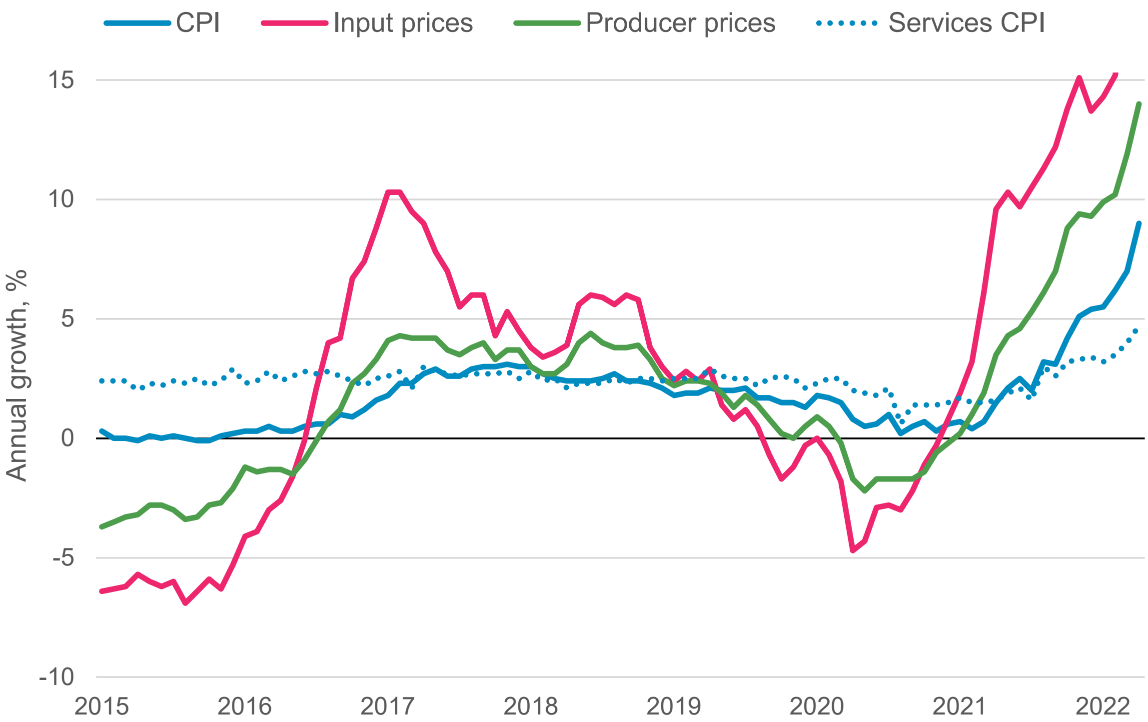
Box 3.1: Inflation and the cost-of-living crisis

April 2022 saw Consumer Price Index (CPI) inflation across the UK hit a 40-year record high of 9% year-on-year (Figure 3.9). In fact, this is the highest reading since formal records began, although estimated back data suggest inflation was higher in the early 1980s. In April, the UK's inflation pushed above the pace seen in any other G7 economy after months of lagging US figures. Both Russia's invasion of Ukraine and existing supply chain challenges are propelling this high inflation, and these factors may push up costs for some time.

Rapid inflation creates a wide range of costs, but the key macroeconomic consequence is lower real incomes. As rising prices drag on consumers' real spending power, aggregate demand will suffer, denting the economic recovery from the pandemic. On average, London may fare better than other parts of the country, with higher incomes, more confident consumers and less energy-intensive homes. However, the lowest-income Londoners still face a stark challenge and consumer-facing sectors may see the recovery go into reverse.

While rapidly rising inflation was initially a goods-focused phenomenon, with producer prices showing most of the strain, rising prices have spread to all sectors. Headline CPI inflation is clearly very high, but the upward trend is now even evident in usually more stable service prices.

Figure 3.9: Cost pressures have spread from production inputs to wider consumer inflation



Source: Office for National Statistics

War in Ukraine has become the leading cause of inflation, with worse still to come

Inflation first accelerated last autumn due to supply chain challenges as global demand recovered from COVID-19 ahead of global supply. However, the latest burst is mostly down to the war in Ukraine. Russia's invasion of Ukraine has prompted fears of supply shortages in three key commodity markets: natural gas, oil and food. All three of these global markets have a clear influence on the latest inflation figures in the UK. Forward-looking indicators point to continuing challenges in commodity markets and supply chain networks, so inflation is set to remain high well into next year.

To understand why the war in Ukraine is affecting the UK's inflation so much, we can look at where Russia and Ukraine have a major influence on global goods markets. Russia is the second-largest global producer of both crude oil[24] and natural gas[25], while Ukraine and Russia together supply around a quarter of global wheat exports[26]. Fears of disruption in these markets rapidly inflated prices after the invasion. Oil prices pushed above $100 per barrel for the first time since 2014 and they have since pushed to around $125 per barrel – an 11-year high. Meanwhile natural gas prices more than doubled over the first week of March 2022. These have since eased to below pre-invasion prices, but they are still very elevated compared to pre-pandemic levels. Finally, global wheat prices surged by nearly 70% between early February and early March and have since been very volatile.

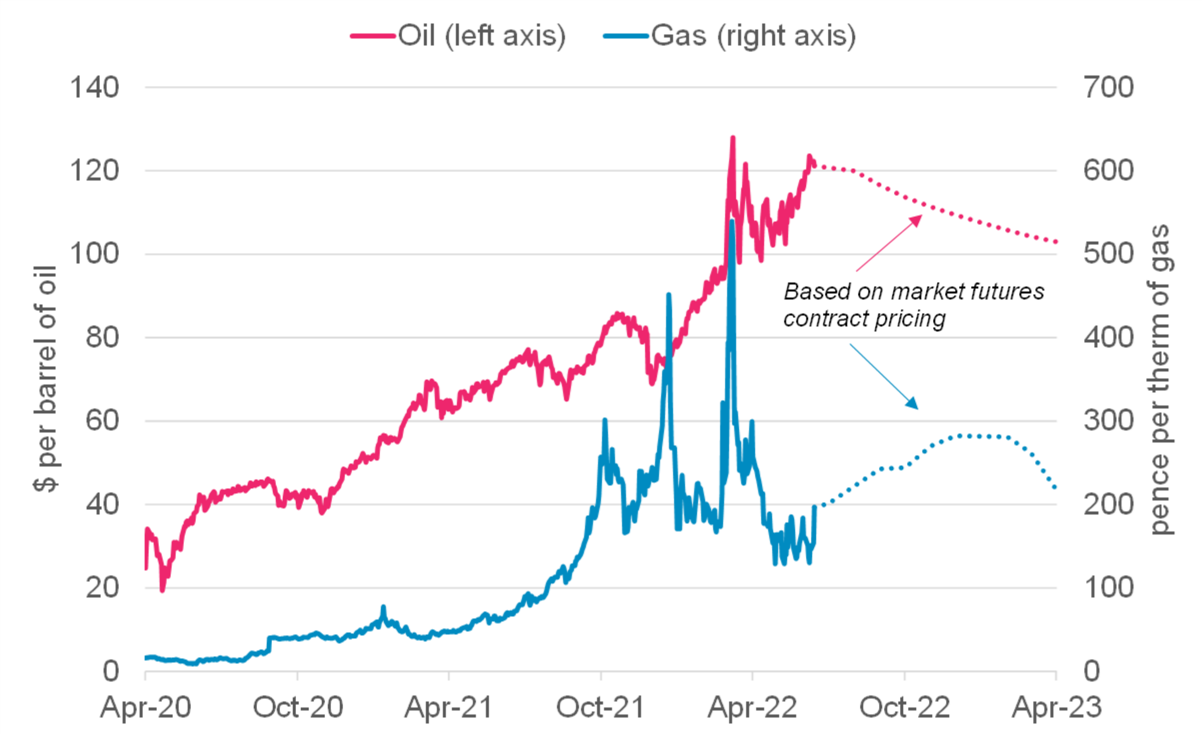
All these global commodity price movements have had an impact on UK consumer prices. The single biggest contribution to annual CPI inflation in April was energy (accounting for 2.5 percentage points of the total 9% growth). April saw the Ofgem price cap for standard energy bills increase by more than 50%,

[24] US Energy Information Administration. Accessed 3 March, 2022.
[25] International Energy Agency. Accessed 3 March, 2022.
[26] News sources including NY Times, The Conversation. Data can be found on ITC Trade Map.

finally accounting for the prior six months of soaring wholesale prices. The next largest contribution was vehicle fuel (contributing 1.9 percentage points) as elevated global oil prices fed into the domestic market. Finally, food and catering services (each contributing 0.7 percentage points) were the next largest contributors as global agricultural prices began to influence UK food prices.

The bad news for households is that market signals point to high commodity prices for some time (Figure 3.10). As well as trading the goods themselves right now at a 'spot' price, global market traders can make deals to buy commodities in the future at a pre-agreed price. These 'futures contracts' tell us what traders think will happen to the price at a particular point in the future. Natural gas spot prices have unwound the entire surge following Russia's invasion of Ukraine, and are now hovering slightly below pre-invasion levels. Yet futures pricing anticipates further increases in gas prices late this year. The market sees gas prices peaking at a level more than 60% higher than current levels and only falling in Spring 2023. There is little let-up in oil markets either, as while futures prices suggest oil should get cheaper, traders anticipate a very gradual path. On the agricultural commodities side, prices have stayed high too, and wheat futures point to no real let-up across this year and 2023.

Figure 3.10 Energy commodity prices, including market projections of future prices



Source: MarketWatch

Supply chain challenges are still pushing up prices and will take time to unwind

Supply chain challenges, the other main driver of higher inflation, remain a lingering threat. As the global economy recovered from the pandemic, demand tended to recover faster than supply was ready to resume. Economies began to reopen from lockdown, at the same time as fiscal stimulus was supporting developed economies, while demand for services was still restrained by COVID contagion concerns. This meant that demand for goods accelerated rapidly. World Trade Organization (WTO) estimates of global goods trade volumes were already more than 3% above pre-pandemic levels in Q3 2021[27]. Rising demand

[27] WTO-UNCTAD, "Merchandise export volume indices, seasonally adjusted – quarterly"

then hit still-recovering supply networks, while COVID-19 outbreaks still disrupted major ports. As a result, surveys showed business backlogs lengthening sharply, with the London PMI outstanding business index reaching seven-year highs in mid-2021[28]. Shipping costs also soared, with Baltic dry freight prices quadrupling between December 2020 and October 2021[29].

An example of how this affects UK costs lies with second-hand cars, where prices are up 27% year-on-year in the CPI measure, contributing 0.7 percentage points to total inflation. This surge in prices is due to a semiconductor shortage higher up the supply chain, which slowed the production of new cars, heating up the second-hand market.

Some indicators suggested that supply chain challenges peaked in late 2021 and were ready to ease. The London PMI outstanding business index has trended downwards since December and is now at around pre-pandemic levels. UK and global manufacturing PMI figures now point to the slowest growth in supplier delivery times in a year and a half[30]. The index for Baltic dry freight prices fell sharply from October 2021 to January 2022, when it sat at similar levels to late 2020 and early 2021.

However, there are some signs of remaining trouble for supply chains. At the global level, while the PMI gauge of manufacturer output prices decelerated in May, it remained near some of the highest levels in the series history[31]. Baltic dry freight prices built up again to a brief spike in mid-May, though they have since eased to levels in line with Spring 2021. And while global PMI Commodity Supply Indicators showed supply shortages softened slightly in May, they are still around six times higher than long-run averages[32]. Recent lockdown disruptions to China's production and distribution centres are a key factor as outbreaks of the highly transmissible Omicron variant of COVID-19 clash with the country's zero-COVID policy. Summarising all these factors, The New York Fed's index of Global Supply Chain Pressures has eased from a peak in late 2021[33]. Yet the index remains high and a little volatile, as China delivery times worsened in April[34], but broader pressures eased in May.

London may be less affected on average, but some sectors and households will be hit hard

As elevated inflation is likely to be the norm for this year and into next year, this will have consequences for London's macroeconomy. With wage growth failing to keep in line with inflation[35], sagging real incomes will drag on aggregate demand. This will then slow activity growth in the key reconstruction phase after the pandemic. Consumer-facing sectors involved in retail and entertainment are likely to face a tough period as households tighten their purse strings in response to rising costs. The scale of the challenge is stark. The Office for Budget Responsibility (OBR) predicted in March that high inflation and tax changes would generate a 2.2% fall in real household disposable incomes[36]. If realised, this would be the worst annual figure for income growth since records began in the 1950s.

High inflation and the impact on demand is already showing up in national data, with UK GDP contracting in March and April. The March figure was partly driven by specific challenges in the vehicle sales and production sectors and the April figure was dampened by the end of the Government's Test and Trace

[28] NatWest/S&P Global UK regional PMI (2022)
[29] Baltic Dry Index pricing data available on CNBC
[30] S&P Global/CIPS UK Manufacturing PMI (June 2022).
[31] S&P Global, J.P.Morgan, J.P.Morgan Global Manufacturing PMI (2022)
[32] S&P Global Commodity Price & Supply Indicators (2022)
[33] FRBNY Liberty Street Economics, Global Supply Chain Pressure Index. Accessed 13 June, 2022.
[34] Benigno, di Giovanni, Groen, and Noble, "Global Supply Chain Pressure Index: May 2022 Update", FRBNY Liberty Street Economics (2022)
[35] Regular pay in the three months to April 2022 fell 2.2% year-on-year in real (inflation-adjusted) terms. ONS, Average weekly earnings: June 2022
[36] OBR, Economic and Fiscal Outlook – March 2022, p. 54

service. However, these individual pressures were not sufficient to explain the breadth of the slowdown in activity. April saw declines across the Services, Production and Construction sectors for the first time since January 2021. The ONS release noted that "many respondents reported that increases in the cost of production had affected their business" in its section on cross-industry themes[37]. Despite the end of the 'Plan B' COVID-19 restrictions in late January, retail sales volumes in the three months to April were around 0.3% lower than during the prior three months[38].

Consumer confidence is also showing the strain from inflation on households' willingness to spend. The national figure fell to minus 40 in May 2022, down two points from April's already weak figure[39]. This drop takes UK consumer confidence to its lowest ever level since records began in 1974, pointing to intense anxiety among UK households around inflation. GfK do offer a regional breakdown of consumer confidence, and London's figure fell sharply in May to minus 20, from minus 12 in April. Yet this means that while London's consumers are not confident, they are currently much less pessimistic than the average UK household.

The consumer confidence figures illustrate a wider point that the capital is likely to see less of a macroeconomic impact from high inflation than other regions of the UK. Average incomes are higher[40], the capital's housing stock is typically less costly to heat[41] and Londoners rely less on personal vehicles[42]. This helps explain why our forecast anticipates firmer household income, consumer spending and overall activity growth (see Chapter 5) than national projections from the Bank of England or OBR.

However, we still expect high inflation to have an impact on the capital's economy, and there are some region-specific headwinds. The National Institute of Economic and Social Research's (NIESR) estimate of trimmed-mean inflation cuts out the most volatile prices to construct a measure of underlying inflation. Because they use a regionally collected dataset, they can also identify London's specific price trends. They found underlying inflation was running at 6.7% year-on-year for London in April, compared to 5.7% for the UK overall[43]. This placed London as the UK region facing the joint highest inflation, alongside the West Midlands. London has led the pack in NIESR's figures since April 2021.

Even before this latest episode of high inflation, Londoners have tended to face a higher cost of living. ONS data from 2016 showed price levels in London, even excluding housing costs, were 7% higher than UK averages[44]. These higher costs have a clear impact on inequality and poverty in the capital. Once housing costs are considered, the lowest-income tenth of Londoners are around 30% worse off than the lowest-income tenth in the rest of the UK. London also tends to have a higher after housing costs relative poverty rate than the national average (27% compared to 22% at the UK level)[45]. National data indicate that low-income households tend to devote a higher share of outlays to food and energy than higher-income households[46]. This means lower-income households face a double impact from lower savings buffers to absorb higher costs, and devoting more of their spend to items seeing the fastest inflation.

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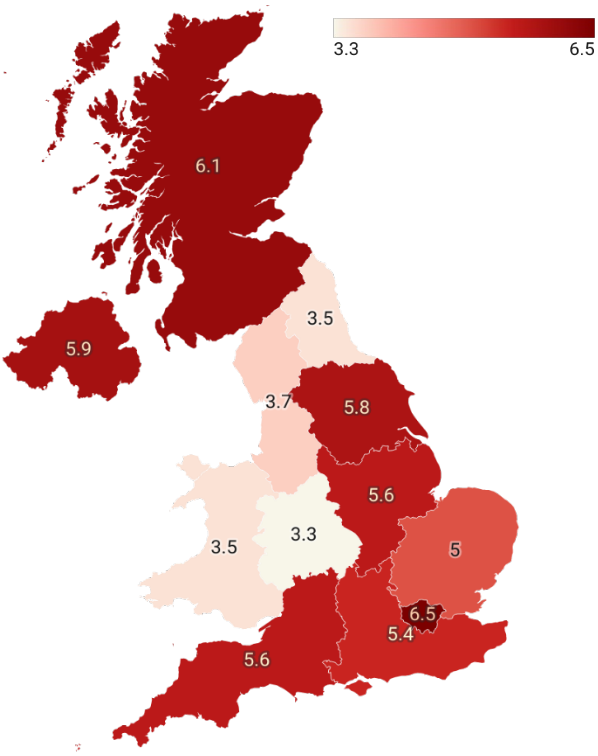
37 ONS, GDP monthly estimate, UK: April 2022
38 ONS, Retail sales, Great Britain: April 2022
39 GfK Consumer Confidence Barometer (May 2022)
40 The ONS Regional gross disposable household income figures for 2019 showed London's average income at £30,256, higher than in any other region.
41 Based on the Family Spending dataset, Workbook 3 (ONS, figures for 2020, published 2021), the average Londoner devotes 3.3% of their weekly outlays to electricity, gas and other fuels, compared to a UK average of 4.1%. London had the lowest share of Energy Performance Certificates lodged in the low energy efficiency bands (E, F and G) for any region in the five years from 2016 to 2021 at 13%. A key reason for this difference is that a larger share of London's housing stock is in apartments, which are more compact and easier to heat.
42 The average Londoner devotes 3.6% of outlays to operating personal transport, versus a UK average of 5.8%.
43 NIESR, Monthly CPI Tracker, May 2022
44 ONS, Relative regional consumer price levels of goods and services, UK: 2016 (2018)
45 Based on the Households Below Average Income data, DWP (2021)
46 Based on the Family Spending dataset, Workbook 2, (ONS, figures for 2020, published 2021)

Overall, this may leave low-income Londoners facing the tightest budgets in the UK. So while the average Londoner may be better able to manage the cost of living crisis, the capital's lowest-income households face an acute challenge.

Reinforcing concerns around the price of essentials and precariousness for low-income Londoners, NIESR have conducted research comparing households' disposable income with their food and energy bills. They found that 6.5% of households in London will see their food and energy bills exceed their total disposable income in 2022 and 2023. This was the highest share of any region[47] (Figure 3.11). While the £15 billion cost of living package announced by the Government in May should mitigate this figure, NIESR indicate that there will still be as many as 1.2 million households nationwide facing the choice between heating and eating. This is down from an initial estimate of 1.5 million households across the UK, but is still very high. As a result, the lowest-income Londoners may well still have to turn to unsustainable borrowing and support from food banks and other charities.

Figure 3.11: Share of households whose food and energy bills NIESR projected would exceed their disposable income over 2022 and 2023.



Source: NIESR modelling (using LINDA, NiReMS), Created in Datawrapper

Polling by the GLA in May found that 15% of Londoners said they were financially struggling. In addition, 12% of Londoners say they have fallen behind on some or all credit commitments in the last six months. The same polling found that 12% of Londoners have regularly or occasionally been unable to buy food or essential items or relied on outside support in the last six months. Over one in four Londoners surveyed (26%) are buying less in food and essentials to manage living costs, which rises to nearly two in three (65%) among Londoners who are struggling financially.

[47] NIESR, UK Economic Outlook: Spring 2022, "Sailing in Treacherous Seas", pp. 38-40.

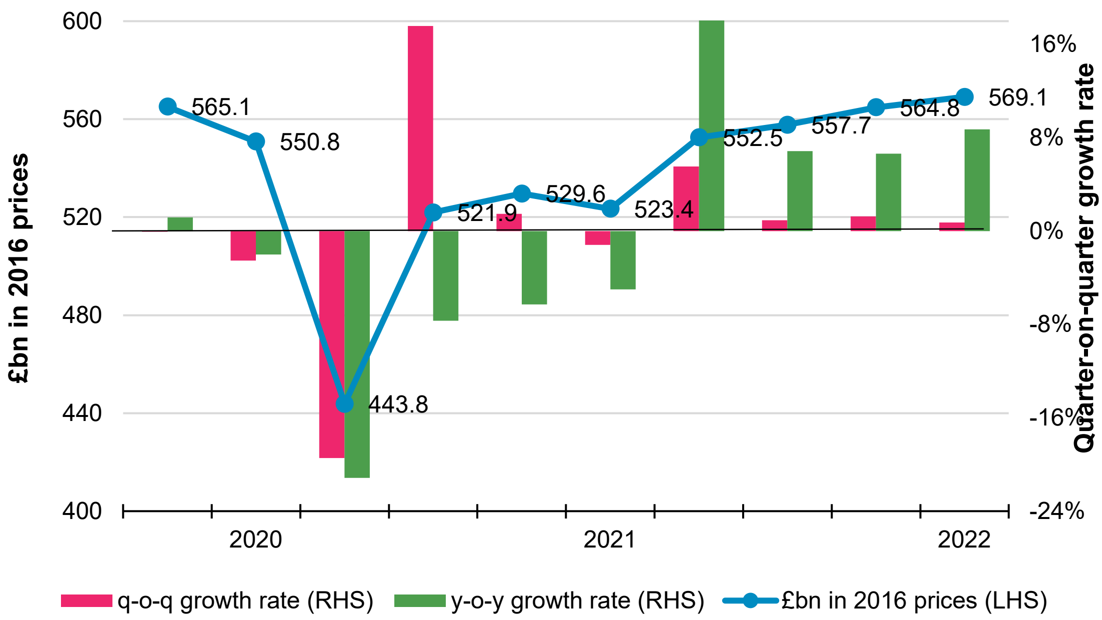
Even the less drastic responses in the polling demonstrate the macroeconomic consequences of high inflation for the capital's recovery. At 46% of respondents, the most popular option was to spend less on non-essentials. While this is a less serious step for households, it demonstrates the economic risks to consumer-facing sectors. A drop in discretionary spending is likely to have a particularly sharp impact on the Wholesale and retail, Accommodation and food services and Arts and entertainment sectors. While strong growth in late 2021 flatters growth in these sectors, total output across all three sectors is expected to remain below pre-pandemic levels across 2022. By contrast, London's economic output in aggregate is expected to reach nearly 3% above pre-pandemic levels. So while London on aggregate may not be as hard-hit by the cost of living crisis, some London households and certain sectors may face a very difficult situation this year and next.

3.2 The UK economy

The UK suffered unprecedented falls during the first part of 2020 – and especially from late March to late May, the UK economy experienced the largest contraction of real GDP for over 300 years (-2.5% in Q1 2020 and -19.4% in Q2 2020, when compared to the previous quarter). The decline in the economy by over a fifth compares with a fall of 6% during the 2008-09 financial crisis. This historic decline in national output was the result of the initial outbreak of COVID-19 and the public restrictions taken to contain its spread.

As the first lockdown was eased from June 2020 economic activity started to recover, at least to some extent, over the summer, led essentially by private consumption. Beyond this, it is thought that public spending had a positive impact on the pickup of household expenditure during the initial recovery period. However, the economy again declined with the introduction of a third lockdown in the New Year but had since resumed growth with the removal of restrictions during the second quarter of 2021. In contrast, the economy grew during the fourth lockdown in Q1 2022, at 0.8% quarter-on-quarter. It was during this quarter that the UK economy reached pre-crisis levels (Figure 3.12). The latest, and provisional monthly GDP data from the ONS indicates some subsequent weakening in the UK economy, as GDP declined by 0.3% in April 2022, after a fall in March of 0.1%.

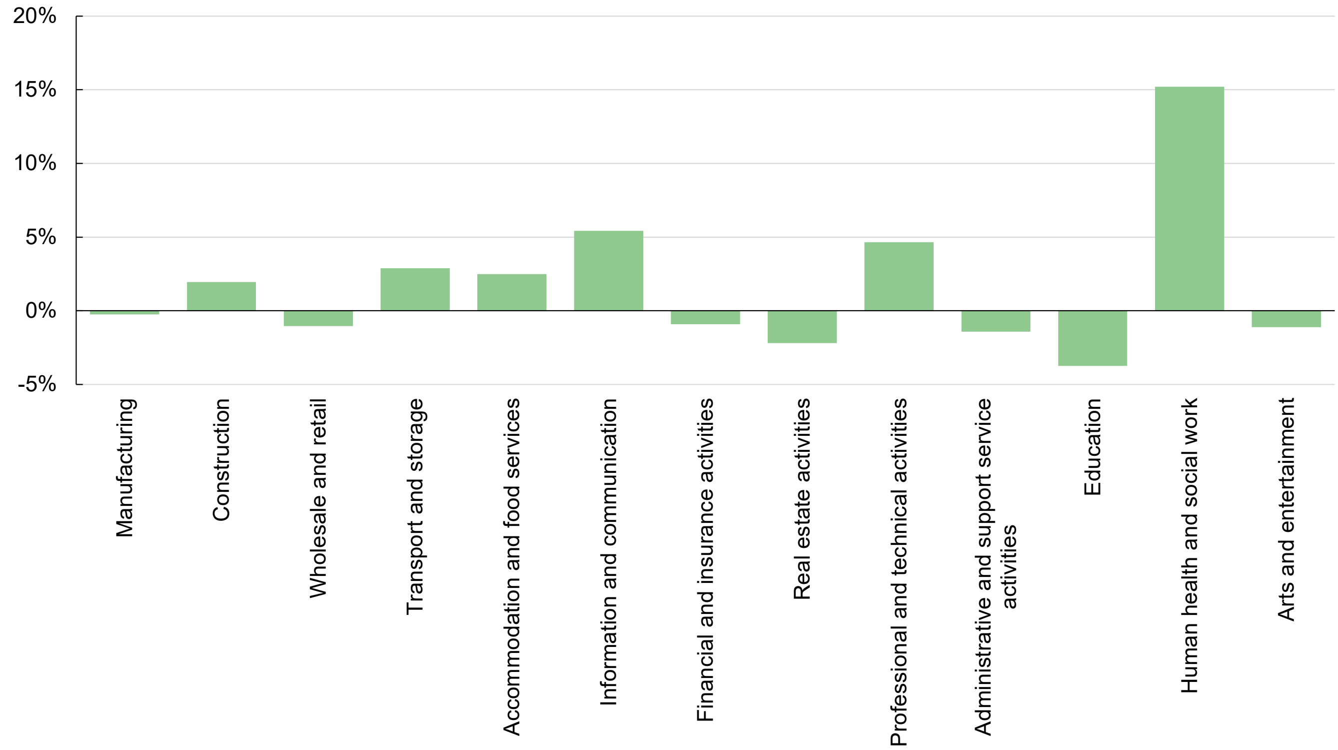
Figure 3.12: UK real GDP (Q4 2019 – Q1 2022)



Source: GLA Economics based on ONS – UK National Accounts data.

As with London, the UK sectoral distribution of the impacts of the recovery from the pandemic is uneven. Most striking is that by Q1 2022 Health output was 15% higher than pre-pandemic. Other sectors which have grown are Professional services, Information and communication, Accommodation and food services, Transport and storage, and Construction (Figure 3.13). It is noteworthy that the UK hospitality sector is faring better than its London counterpart, perhaps reflecting the importance in London of commuters and visitors, both domestic and international.

Figure 3.13: Proportionate change in real GVA by industry* in the UK Q4 2019 – Q1 2022



*Source: GLA Economics based on ONS – UK GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

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)[48]. For the most recent period, the year to Q1 2022, there was growth across all sectors (Table 3.1).

Table 3.1: Annual rates of real growth in domestic final expenditure for the UK

	2020			2021				2022
Expenditure	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Households	-22.9%	-7.5%	-8.5%	-9.0%	23.3%	5.8%	8.1%	12.5%
Non-profit institutions	-28.4%	-10.9%	-6.7%	-8.5%	27.9%	8.1%	3.2%	8.6%
General Government	-18.4%	-3.2%	-1.8%	2.0%	35.4%	13.4%	10.5%	7.5%
Gross fixed capital formation	-20.8%	-8.8%	-4.1%	-2.4%	21.6%	4.9%	2.3%	8.8%

Source: ONS (2021). 'GDP first quarterly estimate, UK: January to March 2022', 12 May 2022.

Household expenditure is important to the UK economy, with it contributing three-fifths to UK GDP in 2021. Following declines in annual growth in each of the four quarters to Q1 2021 there has been positive

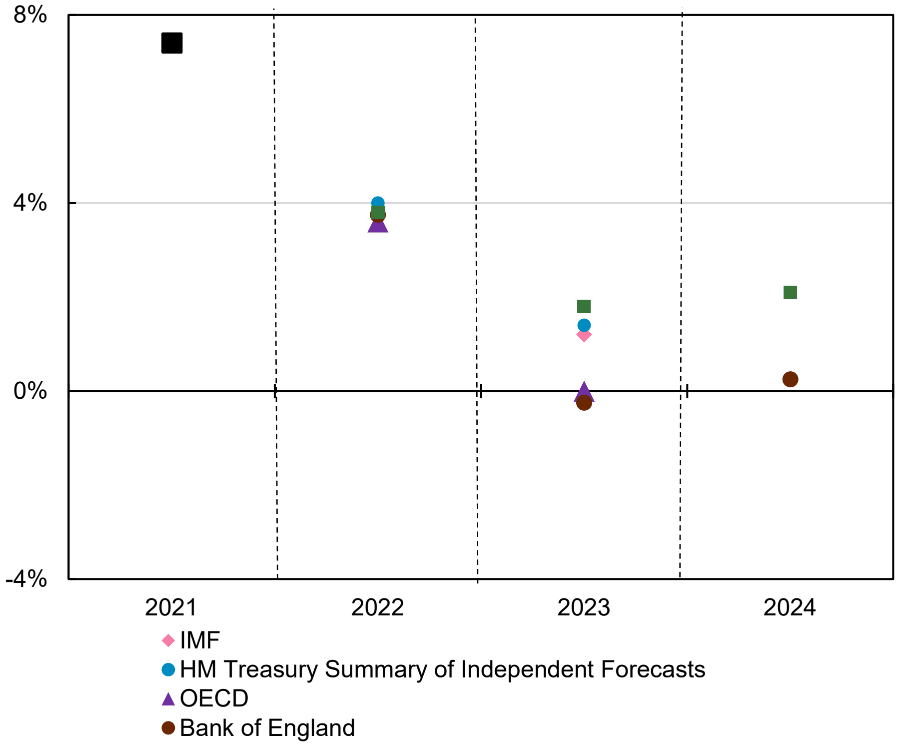
[48] It also includes net trade in goods and services.

annual growth in the next four quarters to Q1 2022. There is a similar picture for other elements of domestic final expenditure (although annual general government expenditure started improving one quarter earlier from Q1 2021).

Forecasts of the UK economy

Looking to the outlook for the UK economy over the coming year, other uncertain elements such as the cost-of-living crisis (see Box 3.1), global economic recovery, the degree of scarring of the economy, the continued impact of Brexit (see Box 3.2) and the prolonged concerns on low productivity add to the risks already mentioned for the very short term. Although the fiscal support for businesses, and notably the furlough scheme ended in September the Autumn Budget did not further roll back public spending providing continued support to the UK economy. After the Spring Statement the Chancellor announced additional support to households to help meet the rising cost-of-living – this was also later than most of the forecasts reported in Figure 3.14. The consensus is that growth will fall in 2022, and fall further in 2023, possibly to near zero growth.

Figure 3.14: External forecasts of UK real GDP growth for 2021-2024



Source: GLA Economics based on ONS, HM Treasury, Bank of England, OECD, IMF, and OBR projections

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 3.2.

Table 3.2: Selected OBR and HM Treasury consensus forecasts for the UK economy

	HM Treasury's Average of Independent Forecasters (May 2022)		Office for Budget Responsibility (March 2022)	
	2022	2023	2022	2023
Annual real GDP growth rate	4.0%	1.4%	3.8%	1.8%
LFS unemployment rate	4.0%	4.0%	4.0%	4.2%
Current account	-£89.7bn	-£82.1bn	-	-
Public sector net borrowing (financial year)	£100.0bn	£64.7bn	£99.1bn	£50.2bn

Sources: HM Treasury (2022). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2022; and OBR (2022). 'Economic and Fiscal Outlook – March 2022', March 2022.

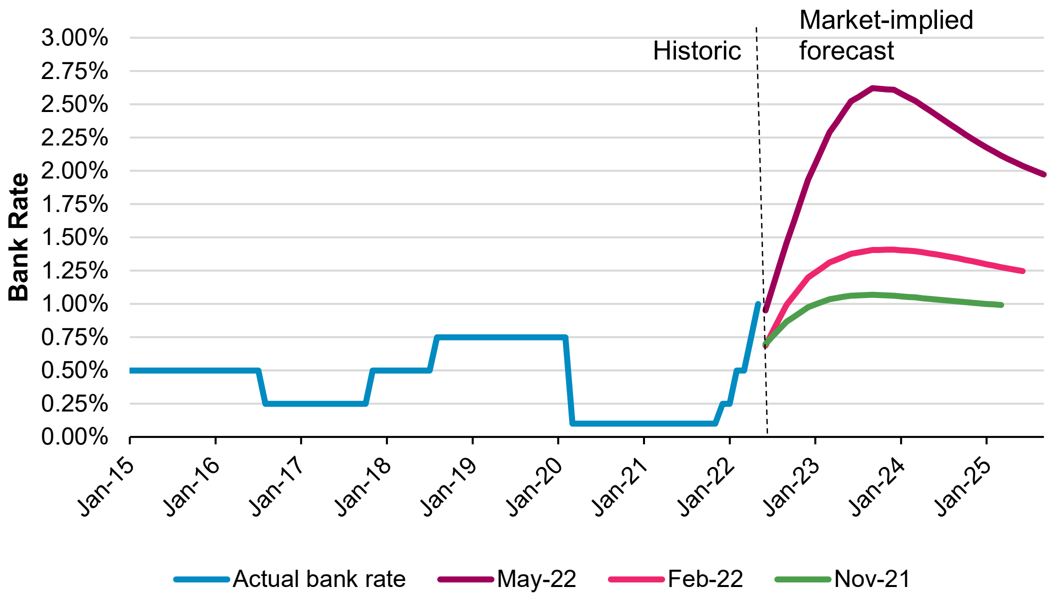
Other UK economic indicators

Beyond GDP, another important economic indicator is inflation as measured by the Consumer Price Index (CPI). Inflation, which had 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, fell 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 and did seem to have happened with CPI inflation standing at 1.5% in March 2020[49]. The weakness of demand in the economy during the pandemic further subdued inflationary pressures. However, with the easing of the impact of the pandemic releasing pent up demand, global supply chain pressures and the impact of Brexit inflation again exceeded the Bank's target by the end of 2021. The outbreak of war in Ukraine in February 2022 exacerbated inflation, and particularly for energy and food prices. CPI inflation rose to 9.0% in the 12 months to April 2022 up from 7.0% in March[50]. The BoE expects inflation to rise further to around 11% this year[51]. According to BoE projections inflation will fall next year and be close to its 2% target in around two years.

In part due to the economic shock of the pandemic and the fact that output has yet to return to pre-pandemic levels the Bank had not raised interest rates since August 2018. Instead as the scale of the impact of social distancing measures to tackle COVID-19 became apparent in March 2020, the Bank lowered interest rates to 0.25% and then to 0.1%. However, the faster than previously expected rise in prices have led to a growing expectation of faster interest rate rises over the coming year, and the BoE raised rates from 0.1% to 1.25% between December 2021 and June 2022. The effect of the crisis in Ukraine is that market expectations of the path of interest rates is that they will continue to rise, and be higher for longer (Figure 3.15).

[49] ONS (2021). 'Consumer price inflation, March 2021', April 2021.
[50] ONS (2022). 'Consumer price inflation, April 2022', May 2022
[51] Bank of England (2022). 'Bank Rate increased to 1.25% - June 2022', June 2022.

Figure 3.15: Market-implied interest rate path for the UK



Source: Bank of England (2022), '[Monetary Policy Report – May 2022](#)', May 2022.
Note: chart does not incorporate outcome of June 2022 Monetary Policy Committee meeting

Interest rate changes can have several influences on the economy[52]. 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 keep rates at levels that are still historically very low, indicating that the dampening effect of interest rates on the UK in the near term could still be limited.

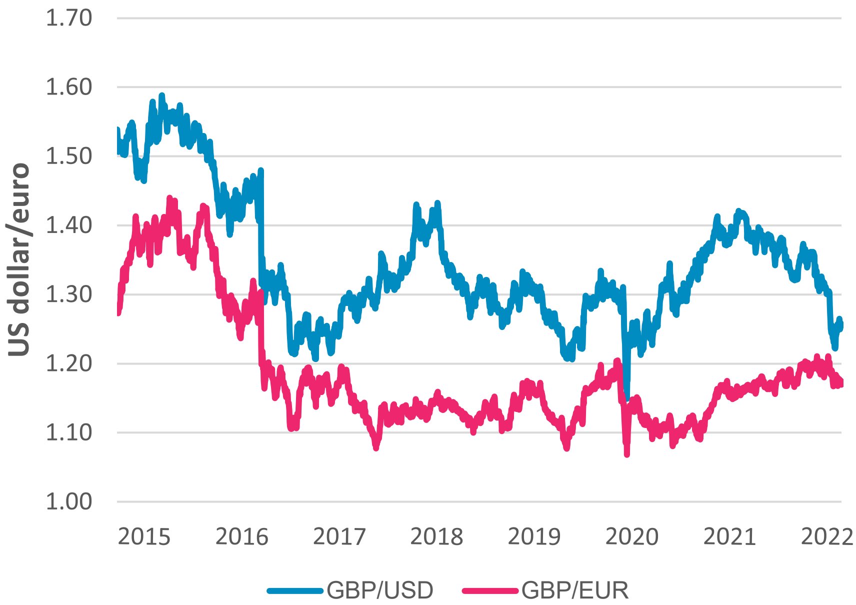
The value of sterling fell following the result of the EU referendum in June 2016 and this is shown in Figure 3.16. Sterling had been relatively steady against the Euro since mid-2017, although there have been marked down and then upward movements in the second half of 2019 as first a no deal Brexit 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 the continuing impact of Brexit.

In early March 2020 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 the vote to leave the EU. Despite this the pound more than recovered against the dollar perhaps reflecting the poor US response to the COVID crisis, before falling again after the election of Joe Biden as President – his fiscal

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

stimulus measures increased demand, and so the demand for imports. Since 2021 the pound has recovered against the euro which may reflect first the strength of the UK vaccination programme and then expectations of interest rate rises. More recently the pound has fallen against the euro, perhaps reflecting diminished expectations for the UK economy during the cost-of-living crisis.

Figure 3.16: Sterling to US dollar and euro exchange rates
Last data point is 8 June 2022



Source: Bank of England

Box 3.2: An update on Brexit and COVID-19

The 11 previous editions of LEO[53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63] up to December 2021 have provided updates on the process of the UK leaving the EU and estimates of the impact on the London economy. There have been updates on COVID-19 in the last four editions of LEO. As COVID-19 and Brexit are both having significant effects on the economy this box seeks to clarify what the effects are, and where they differ.

1 Legislative background

In February the Government lifted all restrictions on freedom of movement and economic activity imposed over the previous periods to deal with the pandemic and in particular after the outbreak of the Omicron variant in December 2021. In March, the Government lifted travel restrictions. The Government has stated that it does not plan to reintroduce restrictions.

[53] GLA Economics (2016). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections', November 2016.
[54] GLA Economics (2017). 'London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections', June 2017.
[55] GLA Economics (2017). 'London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections', November 2017.
[56] GLA Economics (2018). 'London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections', May 2018.
[57] GLA Economics (2018). 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', November 2018.
[58] GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019.
[59] GLA Economics (2019). 'London's Economic Outlook: Autumn 2019 The GLA's medium-term planning projections', December 2019
[60] GLA Economics (2020). 'London's Economic Outlook: Spring 2020 The GLA's medium-term planning projections', June 2020.
[61] GLA Economics (2020), 'London's Economic Outlook: Autumn 2020 The GLA's medium-term planning projections', December 2020.
[62] GLA Economics (2021). 'London's Economic Outlook: Spring 2021 The GLA's medium-term planning projections', May 2021.
[63] GLA Economics (2021), 'London's Economic Outlook: Autumn 2021. The GLA's medium-term planning projections', December 2021.

In terms of Brexit the Autumn 2021 LEO[64] discussed the pressures on the implementation of the Trade and Cooperation Agreement (TCA) following the UK's exit from the European Union. The UK Government has been continuing to express dissatisfaction with the Northern Ireland Protocol and the imposition of border controls on goods trade between Britain and Northern Ireland. This maintains the EU single market, and permits the free movement of goods and services, between the north and south of Ireland. Previously the Government has threatened to use Article 16 of the Protocol. This allows the UK or the EU to take unilateral "safeguard" measures if the party reaches the conclusion that the deal is leading to serious practical problems or causing diversion of trade. This would be likely to lead to an immediate response by the EU.

More recently, the Government has issued legislation to overturn parts of the Protocol. This would, amongst other things, remove regulatory barriers to goods made in Britain being sold in Northern Ireland and allow the UK to determine tax and spending. The European's Commission vice-president in charge of Brexit, Maroš Šefčovič said the UK's move had "no legal or political justification". In addition to new legal action for alleged failures to implement the Northern Ireland protocol as it stands, Mr Šefčovič confirmed that existing infringement procedures, which had been paused while UK-EU talks took place, would now be resumed. Further measures would follow if the UK pressed ahead with the Northern Ireland Protocol Bill. As it takes time to pass legislation it is likely that there will be more time to negotiate than with an Article 16 process, reducing the possibility of further counter-measures. Otherwise there might ultimately be a trade war to the detriment of the economies of London and the UK.

Elsewhere, the UK Government has delayed for a fourth time full post-Brexit border checks on imports from the EU until at least the end of 2023. This reduces costs to business, and so helps alleviate the cost-of-living of consumers.

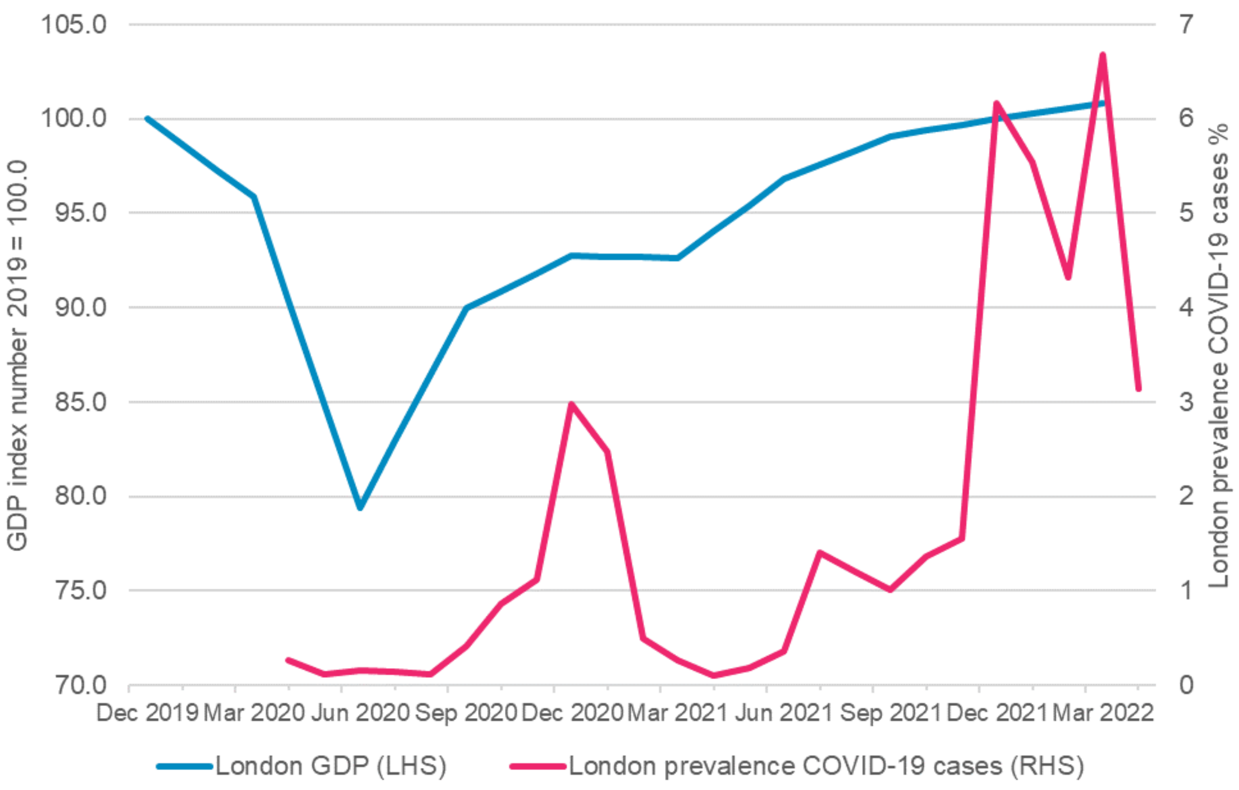
2 COVID-19 and Brexit and economic output

The London and UK economies have learnt to adapt to each wave of the COVID-19 virus, and there has been less impact on output with successive waves despite the number of cases in the population being higher, (Figure 3.17). The impacts on supply chains and energy prices are discussed in Box 3.1. There continues also to be impacts for the economy from increased sickness absence and insufficient NHS capacity to process the backlog of treatments.

The economy has learnt to adapt to the virus through changes in working practices, such as increased home working, and changes in spending patterns in a shift to goods from services. Increased immunity to the virus, the availability of vaccines and better treatments have also enabled society to respond with fewer restrictions.

[64] GLA Economics (2021), 'London's Economic Outlook: Autumn 2021. The GLA's medium-term planning projections', December 2021.

Figure 3.17: London output and prevalence of COVID-19 cases, December 2019 – March 2022



Source: ONS Covid infection survey, ONS annual and quarterly regional output and GLAE calculations

The effects of Brexit on the economy are likely to be more long lasting, but will only become apparent over a period of years. Opportunities in the economy would be less with the introduction of trade restrictions, and this is likely to impact on investment and trade, and lead to a re-structuring of activity across sectors[65]. 2019 research indicated that the result of the EU Referendum caused a UK output loss of 1.7-2.5% by the end of 2018, to a large extent driven by a downward revision of growth expectations[66]. This is even before the introduction of trade restrictions. Autumn 2021 LEO[67] reported on early evidence of the impact on output after the end of the EU transition period, and the start of the TCA. The Office for Budget Responsibility (OBR)[68] expects a fall in output of 4% compared with what it would otherwise have been.

3 COVID-19 and Brexit and London's population

GLA analysis has concluded that London's population fell by around 110,000 in 2021, (Figure 3.18). This is the first annual fall in over three decades. Since the Spring of that year the population has continued to increase, although the central variants expect that the population will rise at a slower rate than prior to the pandemic. That is London continues to be an attractive place to live and work.

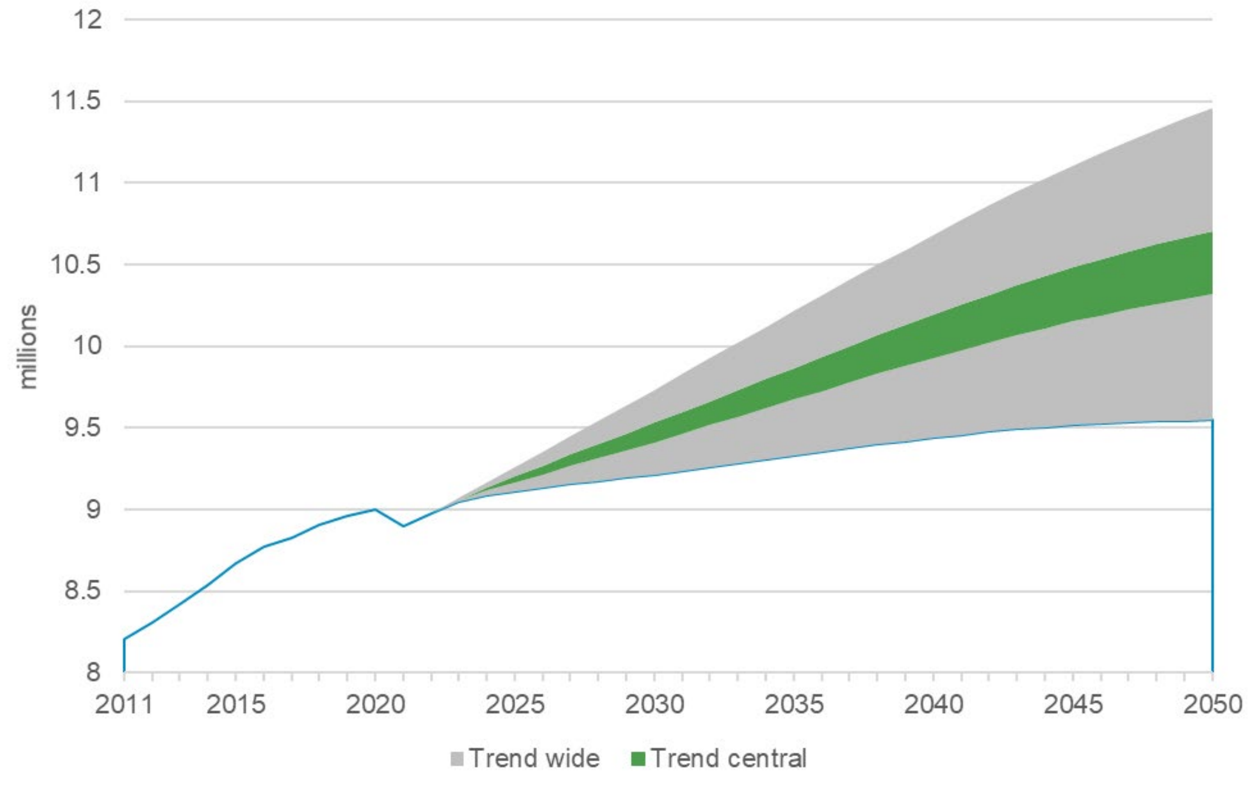
[65] Hope M (2019), The economic impact of Brexit on London, GLA Economics

[66] Born B et al (2019), The Costs of Economic Nationalism: Evidence from the Brexit Experiment, Economic Journal, volume 129, issue 623, October 2019, pp2722-2744

[67] GLA Economics (2021), 'London's Economic Outlook: Autumn 2021. The GLA's medium-term planning projections', December 2021.

[68] Office for Budget Responsibility (2021). 'Economic and Fiscal Outlook – October 2021'. The OBR did not provide refer to any additional studies in its March 2022 report.

Figure 3.18: London population, and modelling variants, 2011-2050



Source: GLA 2020-based population projections

The data examined show that since early 2020[69]:

- Deaths have increased, mainly in the over-75 age group, due to COVID-19.
- Annual births have continued their long-term downward trend, but there remains little evidence that fertility rates have been significantly impacted by the pandemic.
- Natural change (difference between births and deaths) in London since the start of the pandemic has remained positive but has been at the lowest level since the 2000s.

The data also indicate that:

- In the months following the first lockdown, there was a short-term movement of young adults away from the centre of London related to the economic slow-down, and this has largely been reversed.
- In contrast, house-price and GP registration data indicate the increased rate of loss of other age groups to surrounding regions is a more persistent trend.
- International migration flows to the UK and London fell due to the combined effects of the pandemic and Brexit. Recent visa data indicate that non-visitor flows at least has partially recovered.

4 COVID-19 and Brexit, immigration, and labour supply

The London and UK labour markets have recovered well, and by Q1 2022 unemployment rates were close to their pre-pandemic levels. At the same time at the UK level there has been a fall in labour supply which has led to labour shortages and put upward pressure on inflation through wage inflation. There is a similar

[69] GLA (2022). Population change in London during the pandemic, February 2022

picture for London. The employment rate is lower than before the pandemic, it is harder to recruit for lower skilled jobs, while aggregate labour supply is also lower.

Autumn 2021 LEO[70] discussed changes in EU migrant labour supply in London and the UK. At that time the ONS estimated that there was net out-migration to the EU from the UK of around 100,000 people in 2020. Over the six quarters from 2020 Q1 to 2021 Q2 there was a fall of 12% in the jobs in London held by people born in the EEA. Administrative data for payrolled employments is also showing a fall in EU workers in June 2021 compared with February 2020 for both London and the UK[71].

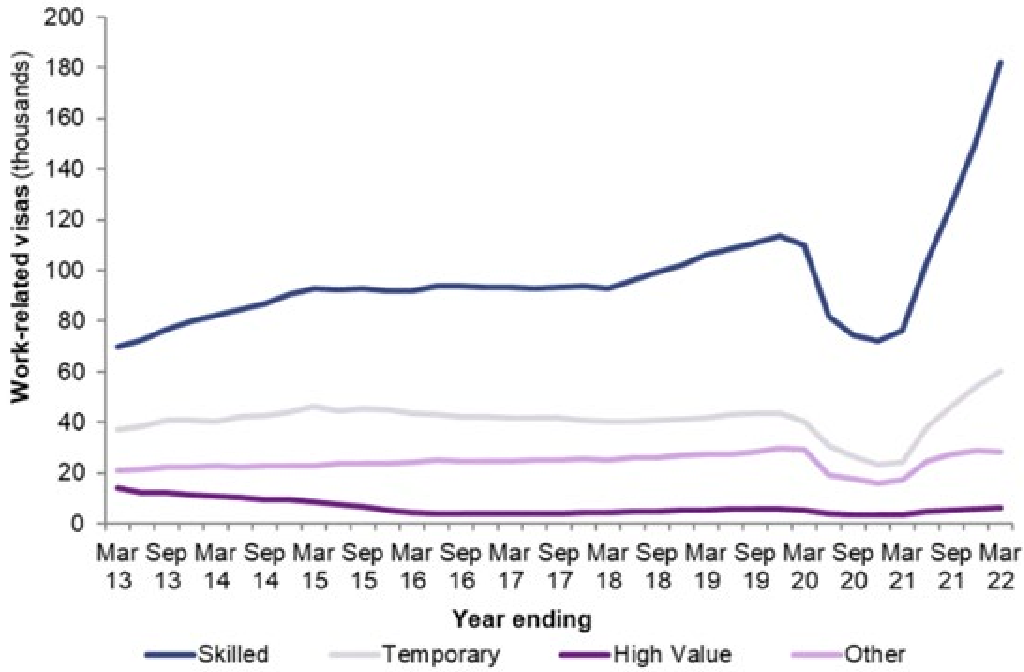
However, the latest (and still provisional) estimates from the ONS, reported above, are that British and EU net migration were close to zero in the year ending June 2021. These are not necessarily inconsistent with the previous estimates as there are wide confidence intervals around these figures. Annual flow figures also do not capture the rapid changes in migration which have occurred since March 2020. There may, for example, have been a net outflow for the second half of 2020 offset by a net inflow for the first half of 2021. Finally, these are long-term migration estimates and will not include people who have left the UK for less than a year, or come to the UK for less than a year and work in this time.

The best current estimate by the ONS is that total net migration to UK was similar at around 250,000 in the years ending between June 2020 and June 2021 (see below)[72]. This is consistent with London's population continuing to rise.

It is also consistent with a rise in the number of people entering the UK with work-related visas. The immigration system for the post-Brexit period had a single set of entry criteria, and was not dependent on country of birth[73]. This established a single regime for all migrants regardless of their country of birth. Primarily it provided a route for skilled workers, and set a salary threshold of £25,600. This made it harder for migrants from the European Economic Area to enter the UK to work, but easier for migrants from other countries. Potential migrants from these countries are taking advantage of these changes as work-related visas granted in the year to March 2022 were markedly higher than in the pre-pandemic period (Figure 3.19). (As an aside there has also been a sharp increase in sponsored study visa grants to nearly 500,000 in the quarter to March 2022, and over a third higher than the pre-pandemic level.)

[70] GLA Economics (2021), 'London's Economic Outlook: Autumn 2021. The GLA's medium-term planning projections', December 2021.
[71] ONS (2022), 'Changes in payrolled employments held by non-UK nationals during the coronavirus (COVID-19) pandemic and EU Exit periods' and GLA Economics (2022), PAYE Employments by nationality.
[72] ONS (2022), 'Long-term international migration, provisional: year ending June 2021'.
[73] Home Office (2020), 'New immigration system: what you need to know'.

Figure 3.19: UK work-related visas granted by visa type, year ending by quarter, March 2013 to March 2022

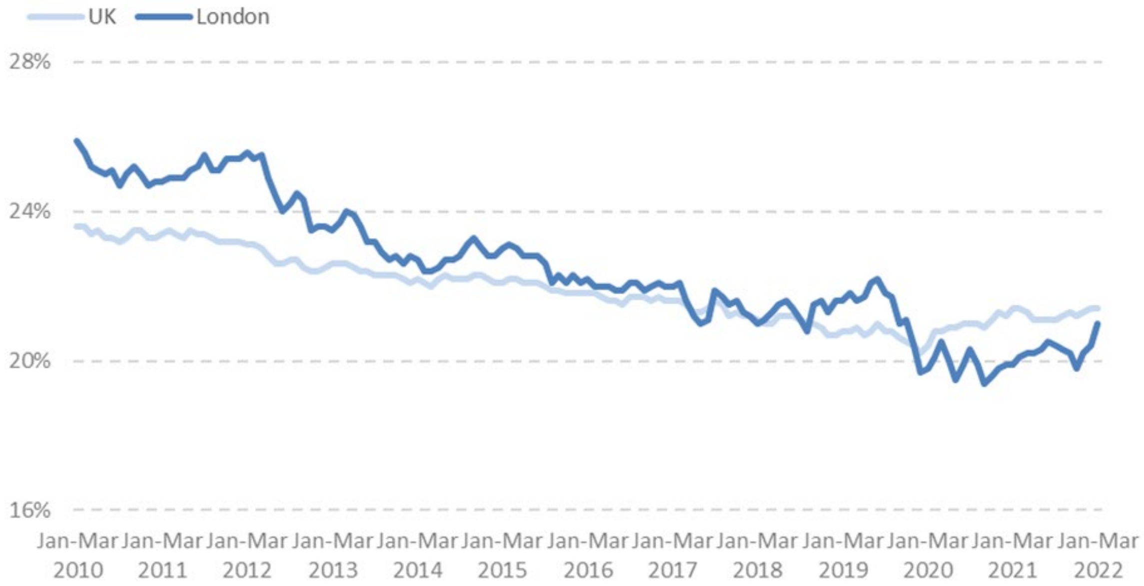


Source: Portes (2022) [74] *analysis of Home Office data*

Labour supply in London and the UK has decreased from a rise in inactivity over the pandemic[75], (Figure 3.20). Inactivity in London rose by 1.0 percentage points for 16-24 year olds in 2019 compared with 2021, while across 16-64 year olds it fell by 1.3 percentage points. 50-64 year old Londoners who lost their jobs were relatively more likely than their UK counterparts to find another job – this is both for financial reasons and because they enjoyed work. More recently, it is a concern that the inactivity rate for 50-64 year olds in London increased by 5.0 percentage points over the last year to March 2022.

[74] Portes J (2022), '[Immigration statistics: looking forward, looking backwards](#)', UK in a Changing Europe
[75] Greater London Authority (2022), '[Economic activity trends in London](#)', supplement to London's Economy Today, May

Figure 3.20: Economic inactivity rate, UK and London
Percentage of 16-64 year olds who are economically inactive, latest data for Jan-Mar 2022



Source: ONS Labour Force Survey

In parallel to the changes in labour supply, the pandemic also saw a massive collapse in hiring, or labour demand, and a large skew towards sectors such as healthcare. That said, nationally vacancy postings have exceeded pre-pandemic levels for nearly a year[76]. Despite the upheaval the overall mix of current vacancies nationally is remarkably similar to before the pandemic. That is, some occupations have become more represented, and some less compared with 2019 – but the overall amount of change[77] is no greater than it was during the more 'normal' period between 2017 and 2019. Where changes have taken place there has been a shift towards vacancies in lower-skilled and lower-paid occupations. For example, vacancies for warehouse workers in the five months to February 2022 were more than double their pre-pandemic level, and vacancies for drivers were 80% higher. It is not known if changes in the composition and level of vacancies reflects a permanent change in the labour market, or if it is a transitory adjustment to the pandemic and Brexit.

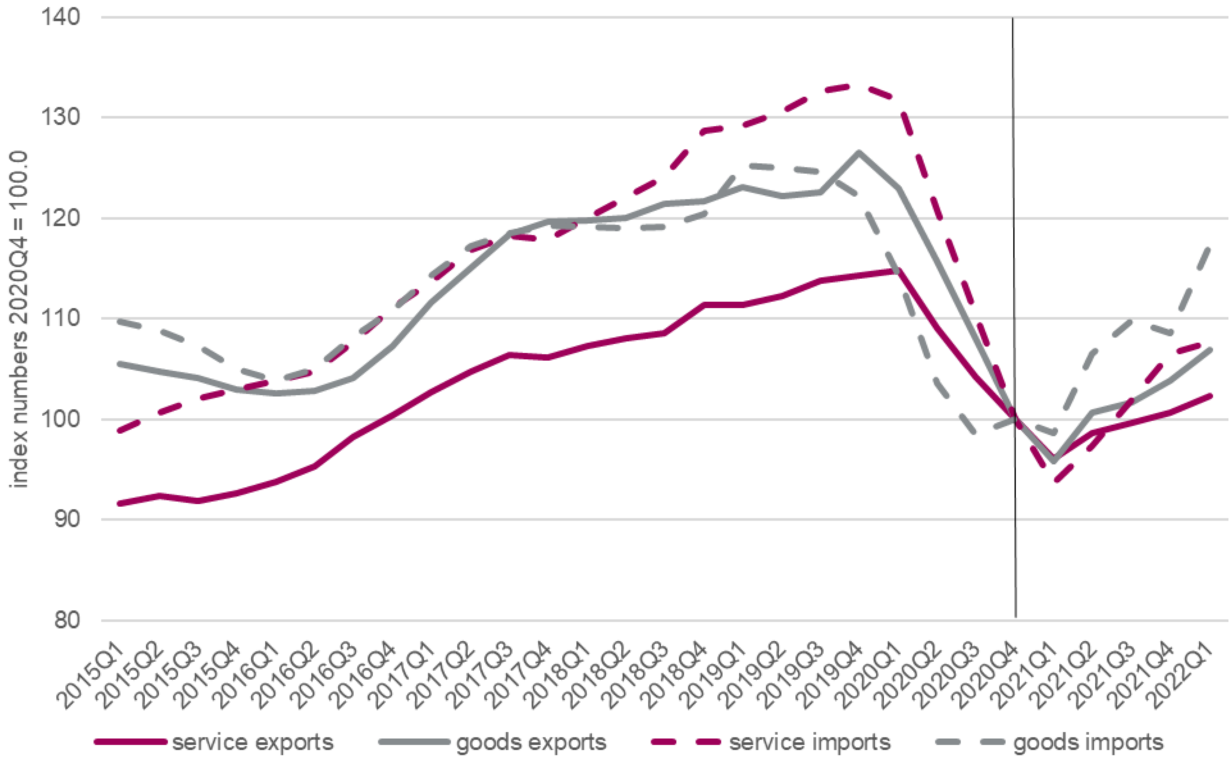
In conclusion, labour supply in London contracted during the pandemic as inactivity rose and from fewer EU migrants in work. Since then, London's population has returned to pre-pandemic levels, and is growing. There has also been a rise in the number of migrants receiving work visas. Labour shortages are most likely to be acute amongst low-paid jobs, many of which were held by EU migrants, and where there is some evidence of increases in labour demand.

5 COVID-19 and Brexit and trade

After the EU Referendum in June 2016 UK goods and services exports and imports increased. The exchange rate depreciation after the referendum made exports more competitive, while the UK's involvement in international supply chains may have increased demand for imports. After the onset of the pandemic trade collapsed to below 2016 levels. This continued after the TCA came into effect in the first quarter of 2021, although subsequently there has been some recovery of goods trade, and less so for services trade (Figure 3.21).

[76] Institute for Fiscal Studies (2022), Job opportunities after the pandemic
[77] Change as measured by standard dissimilarity index

Figure 3.21: UK goods and services trade after inflation, annual moving average, 2016 Q4 to 2022 Q1, index numbers 2020 Q4 = 100.0



Source: ONS monthly trade statistics
Note: Inflation measure used is the GDP deflator

The expansion of UK trade in services with the EU after the EU Referendum continued into 2018 before flattening out, perhaps reflecting the uncertainty at the time about the UK's future relationship with the EU. Trade with the rest of the world continued to grow. UK services trade, both with the EU and beyond, fell dramatically during the pandemic. After a further fall in the first part of 2021 following the introduction of the TCA, there has been some recovery over the remainder of the year. The speed of the recovery has been greater for imports both to the EU and the rest of the world, although the fall was also greater for these categories. The trends, though, seems to have stabilised in Q2. Service imports from the EU have fallen most, consistent with the introduction of trade barriers, while, more curiously, the trends for exports to the EU and the rest of the world are in step (Figure 3.22).

Figure 3.22: Trend in UK services trade, after inflation, to the EU and the rest of the world, annual moving average, 2016 Q4 to 2021 Q4, index numbers 2020 Q4 = 100.0

Source: ONS UK trade in services: service type by partner country
Note: Inflation measure used is the GDP deflator

Analysis by mode of supply of service exports indicates that there has been adaptation during the pandemic, and this also reflects the effects of Brexit. The importance of exports which did not involve the movement of people has risen, and exports to the EU have fallen by more than exports elsewhere. In terms of definitions, ONS has four modes of supply, (Table 3.3), and for which there is data for each except Mode 3.

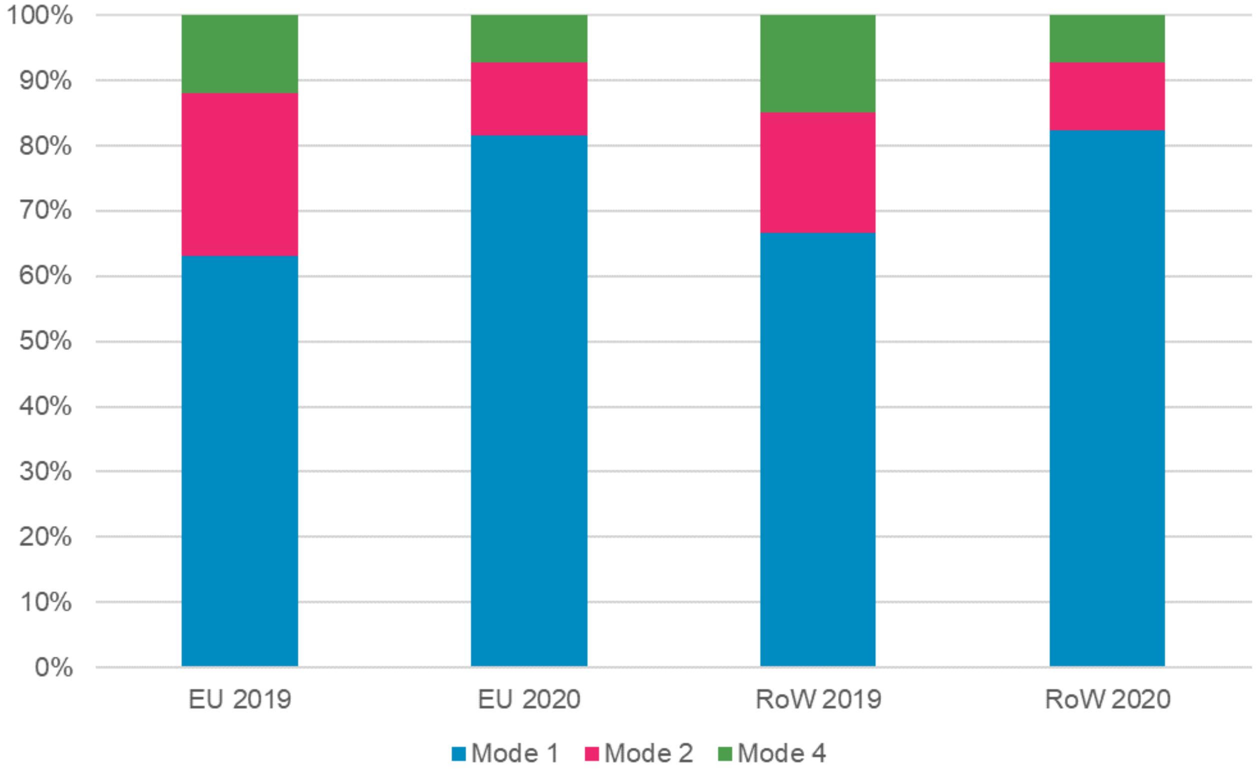
Table 3.3: ONS modes of supply of service exports

Mode 1	A supplier in one country sells a service to a customer in another, but without the movement of people. An example is UK legal or financial advice services being supplied by a UK business to overseas customers remotely, by email or an online platform.
Mode 2	A consumer travels to another country and buys a service. For example, a tourist from another country travels to the UK and pays for a London landmark tour.
Mode 3	A company sets up a subsidiary in another country to supply services to foreign customers directly in that country. For example, a UK telecoms company may establish an affiliate or subsidiary in a foreign country to provide mobile phone services overseas.
Mode 4	Personnel travel abroad to provide a service. For example, a UK consultancy firm sends a business analyst to an overseas customer's office to give expertise or to oversee a project.

Source: ONS Exports of services by country, by modes of supply

Prior to the pandemic over 60% of UK service exports (excluding mode 3) to the EU and the rest of the world did not involve the movement of people (mode 1). This will have protected service exports from restrictions on travel during the pandemic, although not from downturns in other economies. It is not unsurprising that the share of these exports rose for both geographies in 2020, to over 80%, (Figure 3.23), as a response to the pandemic. Three quarters of the decline in services from consumers travelling (mode 2) for both the EU and the rest of the world can be attributed to a fall in travel exports.

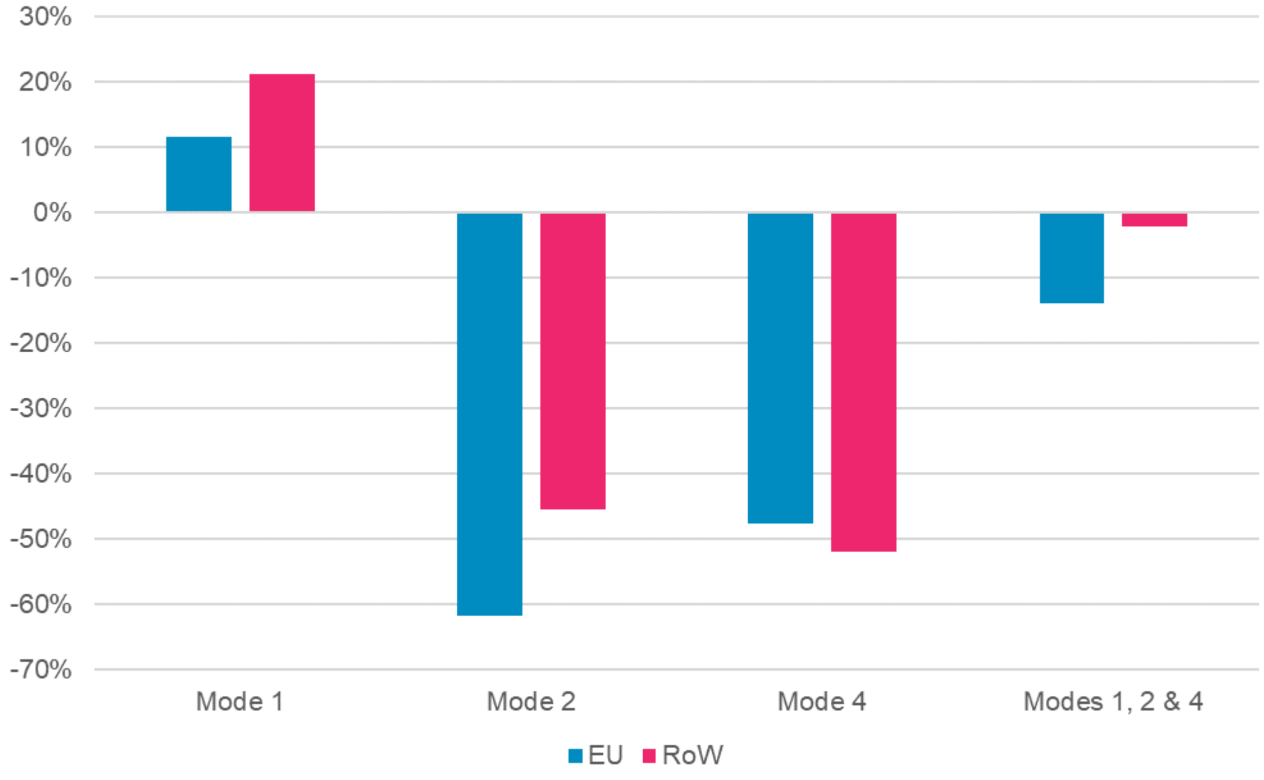
Figure 3.23: Distribution of mode of supply of UK exports to the EU and the rest of the world, 2019 and 2020



Source: ONS Exports of services by country, by modes of supply

Between 2019 and 2020 service exports (excluding mode 3) to the EU fell by 14%, but only 2% to the rest of the world, (Figure 3.24). This suggests that the introduction of restrictions has impacted on EU trade, although a mitigation would be the establishment of subsidiaries, captured in aggregate trade statistics but not included in these mode of supply figures. Only where there was business travel (mode 4) did the EU fare better than the rest of the world, perhaps reflecting the greater impact of COVID-19 restrictions on long haul flights.

Figure 3.24: Change in value of exports between 2019 and 2020 by mode of supply to the EU and the rest of the world



Source: ONS Exports of services by country, by modes of supply

3.3 The global economy

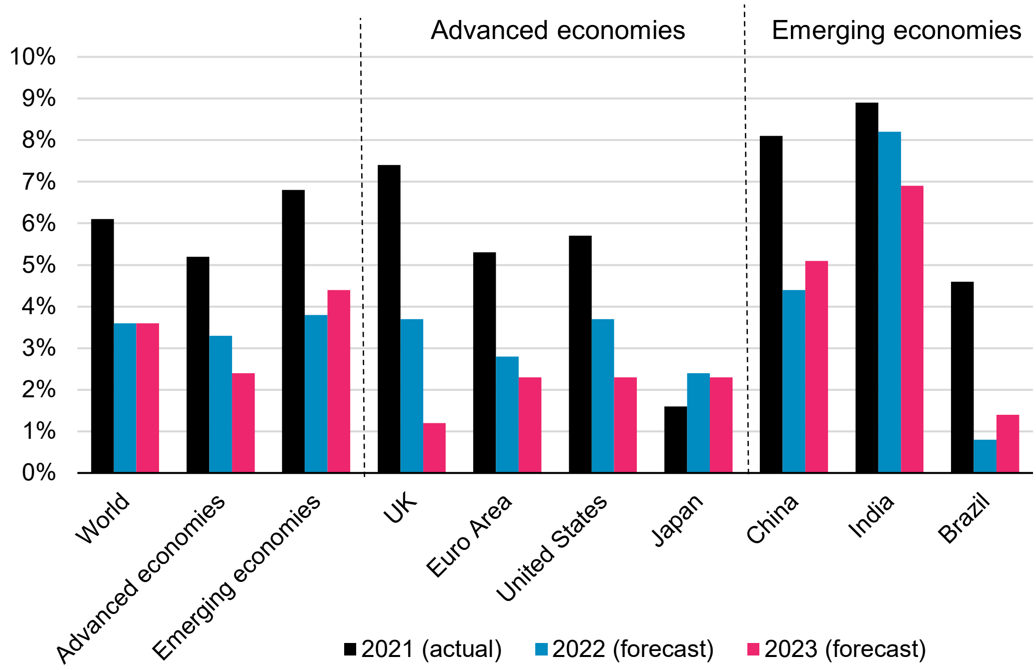
Economies across the planet expanded in 2021 with the spread of vaccination programmes, and bounced back from the trough in output during the first lockdowns. The easing of restrictions has supported growth. Growth is expected to ease off in 2022 and 2023 to more normal rates as economies return to something like their previous growth paths. That said, the IMF notes that, "global financial conditions have tightened notably and downside risks to the economic outlook have increased as a result of the war in Ukraine"[78]. The IMF goes on to say that, "repercussions of the Russian invasion of Ukraine and ensuing sanctions continue to reverberate globally and will test the resilience of the financial system through various potential amplification channels, including direct and indirect exposures of banks and nonbanks; market disruptions in commodity markets and increased counterparty risk; poor market liquidity and funding strains; acceleration of cryptoization in emerging markets; and possible cyber-related events". Inflationary pressures from supply chain shortages, and rising energy prices are global phenomena. A further risk is that the global number of COVID-19 cases remains high with the number in emerging market countries likely to be under-reported, and so further waves of the virus have the potential to have negative economic consequences.

The latest IMF World Economic Outlook[79] forecasts that the world's economy will to grow by 3.6% this year (0.8 percentage points down from its January forecast) and continue at 3.6% next year (0.2 percentage points down). Advanced economies are projected to expand – on average – by 3.3% this year while

[78] IMF (2022). '[Global Financial Stability Report: Implications of the War in Ukraine](#)', April 2022.
[79] IMF (2022). '[World Economic Outlook: War Sets Back the Global Recovery](#)', April 2022.

emerging economies will grow – on average as well – by 3.8%. This implies that the global economy is recovering from the 2020 global recession (Figure 3.25).

Figure 3.25: IMF forecasts of real GDP growth for selected economies



Source: IMF – World Economic Outlook, April 2022.

The advanced economies grew by 5.2% on an annual basis in 2021. The IMF expects growth in 2022 of 3.3% (down 0.6 percentage points on the January 2022 forecast), with it expected to moderate to 2.4% in 2023 (down 0.2 percentage points on their last forecast). Across most advanced economies output is expected to have recovered to its pre-COVID level by 2022.

Looking at the advanced economies in more detail, the **US** economy shrank by 1.5% year on year in Q1 2022. This follows a year-on-year expansion of 6.9% in Q4 2021[80]. The spread of the Omicron variant, and the tapering off and withdrawal of federal funding programmes both contributed to the decline in activity. Additionally, there was a record US trade deficit in goods in March, due to the impacts of the shutdowns in China, and the war in Ukraine. More positively, as a one-off, American firms did not need to re-stock in January as companies had built up inventories to avoid supply chain disruptions over the Christmas period. Further, jobs continue to be created, and business and consumer spending remains robust suggesting GDP may recover over the coming months.

The **Eurozone's** economy has continued to grow. In Q1 2022, GDP increased by 0.3% on a quarter-by-quarter basis, and 5.1% on an annual basis[81]. This followed growth of 0.3% in Q4 2021. The IMF forecasts that the Eurozone will grow by 2.8% in 2022 (a fall of 1.1 percentage points on their January forecast) and by 2.3% in 2023 (a downgrade of 0.2 percentage points on January). While, the European Commission forecasts growth of 2.7% in 2022 and 2.3% in 2023[82]. The EU is the part of the world most dependent on Russian energy imports, and so one of the most exposed to the adverse economic effects of the war in Ukraine. The European Central Bank (ECB) has signalled a tightening of monetary policy to tackle inflation

[80] Bureau of Economic Affairs (2022). 'Gross Domestic Product (Second Estimate) and Corporate Profits (Preliminary), First Quarter 2022', 26 May 2022.
[81] Eurostat (2022). 'GDP and employment flash estimates for the first quarter of 2022', 17 May 2022.
[82] European Commission (2022). 'Spring 2022 Economic Forecast: Russian invasion tests EU economic resilience', 16 May 2022.

with plans for a quarter-point rise in interest rates in July, and a half point rise in September[83]. This would take interest rates above zero for the first time in a decade.

The **Japanese** economy shrank by -1.0% in the first quarter of 2022 after growing by 3.8% in the fourth quarter 2021[84]. Still, the IMF expects that Japan's economy will expand by 2.4% in 2022 (0.9 percentage point lower than in January), and by 2.3% in 2023 (0.5 percentage points higher than previously forecast). The legacy of the pandemic from confinement, weak external demand, and surging energy prices has left pent-up demand in the economy, which will be further boosted by substantial policy stimulus.

Emerging market economies

Growth in the emerging market economies is also expected this year. The IMF expects growth of 6.8% in 2021 and growth of 3.8% in 2022[85] (a downgrade of 1.0 percentage points for 2022 on their January forecast). However, the IMF has noted that, "emerging markets remain vulnerable to a disorderly tightening of global financial conditions"[86]. The World Bank warns that as a consequence of the war in Ukraine, "Several years of above-average inflation and below-average growth are now likely, with potentially destabilizing consequences for low- and middle-income economies."[87]

Of the major emerging markets, **China's** economy grew by 1.3% between Q4 2021 and Q1 in 2022[88]. Still the IMF expects growth to be 4.4% in 2022 before improving to 5.1% in 2023 (a downgrade of 0.4 percentage points for 2022 and 0.1 percentage points on their previous forecast). The Asian Development Bank (ADB) is also positive about China's growth prospects, even if it is more moderate than in recent years and expects growth of 5.0% in 2022 and 4.8% in 2023[89]. The IMF comments that, "with continued tight policies towards the real estate sector and the possibility of more widespread lockdowns as part of the strict zero-COVID strategy, China's economy could slow more than currently projected".

Meanwhile, **India's** economy is estimated to have grown by 8.7% in the year to Q1 2022[90]. Looking at the year as a whole the IMF expects growth of 8.2% in 2022, and 6.9% in 2023 (a downgrade of 0.8 percentage points for 2022 and 0.2 percentage points for 2022 on their January forecast). The ADB also expects healthy growth this year and next with growth of 7.5% in 2022 and 8.0% in 2023.

In **Russia**, the economy grew by 4.7% in 2021 according to the IMF. The IMF expects the economy to shrink by 8.5% in 2022 and a further 2.3% in 2023 (downgrades of 11.3 percentage points for next year and 4.4 percentage points for 2023 compared with their previous forecast). It notes that, "the tight trade and financial sanctions – including loss of correspondent banking privileges, access of some banks to the SWIFT payments system, and the interdiction of central bank assets – and the oil and gas embargo by some large economies will have a severe impact on the Russian economy".

3.4 Risks to London's economy

The outlook for the UK's economy remains very uncertain at the moment, and this situation applies to the capital as well. There are both upside and downside risks to the economy and they come from several sources. This subsection analyses the most relevant ones.

[83] European Central Bank (2022). 'Monetary policy decisions', 9 June 2022
[84] Source: OECD Economic Outlook, June 2022
[85] IMF (2022). 'World Economic Outlook: War Sets Back the Global Recovery', April 2022.
[86] IMF (2022). 'Global Financial Stability Report: Implications of the War in Ukraine', April 2022.
[87] World Bank (2022). 'Global Economic Prospects', June 2022
[88] National Bureau of Statistics of China (2022). 'National Economy Got Off to a Generally Stable Start in the First Quarter', 18 April 2022
[89] Asian Development Bank (2022). 'Asian Development Outlook 2021: Economic Forecasts', April 2022.
[90] Ministry of Statistics and Programme Implementation (2022). 'Provisional Estimates of Annual National Income 2021-22', 31 May 2022.

Since the Autumn forecast the Government has lifted COVID-19 restrictions, and the risks of a further wave of the virus with restrictions and detrimental economic effects has lifted for the moment. London's economy has recovered to pre-pandemic levels of output and has been less affected by successive waves of the virus. There continues to be some impact for the economy from increased sickness absence and insufficient NHS capacity to process the backlog of treatments. The main upside risk to the forecast is that there may not be another variant of the virus, although on the downside if this does happen there may not be a significant adverse impact on the economy until the Autumn when people spend more time indoors.

Over 2022 inflation has been steadily rising brought about by supply chain shortages and rising energy prices. This has been exacerbated by the war in Ukraine, which as well as a humanitarian disaster has provided a major impetus to energy and food prices. The effect has been to import inflation through a worsening of the terms of trade for the UK economy. For families and households, combined with National Insurance tax increases, this has led to a cost-of-living crisis. Some businesses have responded by seeking to restore profit margins, and workers have been pushing for larger wage increases, creating domestically sourced inflation, and the risk of a wage-price spiral. In response the BoE has been increasing interest rates, and will ease quantitative easing to reduce demand[91]. The risk is one of stagflation where its actions are insufficient to bring inflation under control yet output growth is anaemic.

At the present time business confidence remains strong. Consumer confidence in London while strongly negative is at a much higher level than the rest of the UK. Consumers will still be able to spend some of the savings accumulated over the last year from diminished opportunities to travel and socialise. These are thus upside potentials for the economy if these trends continue or accelerate. There are downside risks as noted of new variants, like the Omicron variant, or rising infection rates leading to either a loss of business and consumer confidence or the need to reimpose restrictions to slow the spread of the disease (although the Government has stated that new restrictions are not currently planned if there are further outbreaks). This may heighten the challenge for interest rate setting if the Bank of England seeks to keep interest rates low in historical terms or rising very gradually to promote job creation and growth, especially if the inflationary pressures we are currently witnessing prove more long term than currently expected. This may be exacerbated if there is a restructuring of the economy, and some unemployed people find it difficult to find work because they do not have the right skills.

In this context, labour productivity growth – which has remained below historical standards in London since the 2008-2009 financial crisis[92] - is not expected to be one of the levers of economic recovery from this crisis. On the contrary, our judgement is that it will remain weak in the medium term due to continued low private investment and a larger share of the workforce working remotely. Analysis for the GLA[93] has concluded that the Central Activities Zone will recover, but the time this takes to happen will limit the economic benefits reaped from agglomeration economies. The effects on the long term for London's economy remain very uncertain.

Another risk factor for the evolution of London's recovery is the international context. In this sense, while some global geopolitical risks had lessened slightly compared with 2020, this has reversed with the war in Ukraine. As a result it is likely there will be a re-structuring of the world's energy markets to provide improved energy security. It has also increased geopolitical tensions between the US and China. The suppression of outbreaks of COVID-19 again raises the issue of the resilience of global supply chains. Consequently, the world's economic outlook remains highly uncertain as already described in subsection 3.3 of this report. There are also direct losses to London from reduced tourism and trade, and it is implausible

[91] GLA Economics (2022). 'London's Economy Today', editorial, 26 May 2022
[92] See GLA Economics (2019). '*Productivity trends in London: An evidence review to inform the Local Industrial Strategy evidence base*'.
[93] Arup and others (2021). 'Central Activities Zone (CAZ) economic futures research', March 2021.

that the world's economy will fully recover from the pandemic crisis until all the world's population is vaccinated.

Another risk to London's economy is the potential adverse effects of the unprecedented expansionary monetary and fiscal policies that UK authorities undertook to mitigate the negative impact of the COVID-19 crisis. On the fiscal policy side, although the economic support packages have largely been rolled back, the projected size of the fiscal deficit, and borrowing requirement, in coming years and the tax take of the Government are expected to hit levels not seen for several decades. These figures represent a shock to UK public finances. There continues to be a risk of further fiscal consolidation measures, especially if, say, an increase in interest rates pushes up public sector borrowing costs, or pressures on public services leads to further public spending cuts. It is incurring significant further expenditure in addressing the consequences for households of the cost-of-living crisis (even if a windfall tax on energy companies partially funds it). On the other hand, the announced cuts to return civil service numbers to 2016 levels seek to reduce public spending by billions. Higher inflation increases the tax take as taxes are set in nominal terms, and so, for any level of growth, reduces government borrowing.

On the monetary policy side, the Bank of England has started to raise interest rates, and has announced a re-trenchment of its Quantitative Easing Programme. Low interest rates can impact on financial and real assets (including housing[94]), discouraging people from saving as negative real interest rates make consumption relatively more attractive, and the distortion of information that prices in financial markets provide naturally without intervention (i.e., prices do not reflect the actual asset risk under the current monetary expansion so riskier assets cannot be differentiated from safer assets, thus promoting non-viable investment projects eventually). While the control of inflation is important to the economic outlook higher interest rates increase the fiscal burden through higher debt payments, while low growth reduces the tax take both of which effects are adverse for government borrowing. The current economic climate makes it harder to bring government debt to manageable levels exposing the government and economy to increased risks of an unsustainable debt burden at the time of the next crisis.

Finally, and regardless of the COVID-19 crisis, the main long-term risk to London's economy is around how the new trading arrangements between the UK and the EU will eventually affect activity in the capital. The silence of the Trade and Cooperation Agreement on measures to ease trading frictions in services from exiting the Single Market is to the detriment of the London economy which is likely to become less export-oriented as a result. As well as the longer-term implications, some trade has been falling in 2021 as local businesses - especially small and medium-sized enterprises - need time and resources to adjust to the new legal framework, and some have been deterred completely from exporting. As shown in previous GLA Economics publications[95], Brexit-related uncertainty is thought to have negatively affected London's economy through lower investment, labour productivity and consumer confidence since the 2016 referendum.

3.5 Conclusion

The unprecedented fall in London's economic activity over 2020 reflected a decline in both demand and supply because of the COVID-19 pandemic. However, with the successful roll out of the vaccine programme in 2021 Government restrictions on mobility have been removed and, as economic agents responded to an increase in economic certainty, the economy began to recover.

Despite the unprecedented policy response by UK authorities all London industries were affected by the COVID-19 crisis to some extent, with some such as Accommodation and food services, and Arts and

[94] See Johnson, P. (2020). '*Ultra-low interest rates have huge consequences for the country and its citizens*'.
[95] See GLA Economics (2019). '*The economic impact of Brexit on London*'.

entertainment being particularly heavily hit. And although these sectors have begun to recover, the more heavily hit sectors continue to lag the recovery in the rest of the capital's economy.

The recovery was unbalanced with increased demand for energy and goods, leading to supply chain shortages. The war in Ukraine has led to reduced energy and food supply pushing up inflation further. This has translated into domestic inflation with the risk of a wage-price spiral and longer lasting and more persistent inflation than previously expected. Combined with low output growth there is an increased likelihood of stagflation.

Looking ahead, the outlook for London's economy remains unusually uncertain as risks to the economic recovery are many and still remain skewed to the downside. Factors such as the control and end of the pandemic, including the emergence of new variants and improving supply chain resilience, the evolution of the national and global economies, the management of geopolitical risks from the war in Ukraine, stagflation, the ongoing effects of Brexit and the response of economic agents to all these upcoming developments will critically determine the evolution of the capital's economy over the coming year.

Considering all these elements, GLA Economics provides its medium-term scenario-based forecasts for London's economy in Chapter 5 of this document.

4. Review of independent forecasts

GLA Economics forecasts four economic indicators: workforce jobs, real GVA, private consumption (household expenditure) and household income in London. This chapter summarises the consensus view as of 15 June 2022 on the first three of these indicators[96], drawing on forecasts from outside (independent) organisations[97]. Chapter 5 then provides a summary of GLA Economics' own projections.

All the external forecasts were produced after the March 2022 Spring Statement and over the period March to May.

Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant 2019 prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling, which in turn uses ONS data[98]. The source of historical data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for the absolute levels data.

Beyond the headline, both the external consensus and GLA Economics deliver forecasts for employment and output growth in six broad sectors:

- Manufacturing
- Construction
- Transportation and storage
- Distribution[99], accommodation and food service activities
- Finance and business services[100]
- Other (public & private) services[101].

It should be noted, that since our spring 2012 forecast, GLA Economics has been using the 2007 Standard Industrial Classification (SIC 2007)[102].

[96] The consensus forecast for GVA and employment is based on the latest available forecast from Cambridge Economics, the Centre for Economics and Business Research, Experian and Oxford Economics.
[97] Most forecasters do not yet provide forecasts of household income, while a number of forecasters have not produced estimates of household expenditure since the onset of the pandemic.
[98] The main underlying ONS source for output is the Quarterly country and regional GDP series and the main underlying ONS source for employment is Workforce jobs by region and industry.
[99] Distribution is made from the summation of Wholesale and Retail.
[100] Business services is made from the summation of Information and Communication, Professional, scientific and technical services, Real estate, and Administrative and support service activities.
[101] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services.
[102] For more information see Appendix A of 'London's Economic Outlook: Spring 2012', GLA Economics, June 2012.

Output

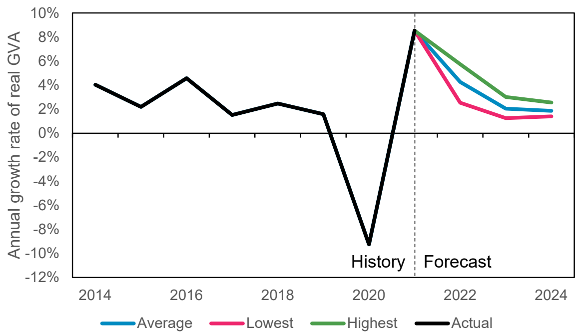
(London GVA, constant prices (base year 2019), £ billion)

The consensus (mean average) forecast puts real output growth at 4.3% in 2022, 2% in 2023 and 1.9% in 2024. The consensus forecast implies a recovery to pre-pandemic levels of activity by 2022.

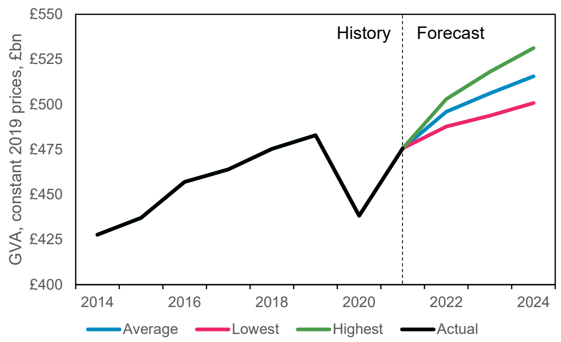
The mean estimates in December 2021 were for growth of 5.6% in 2022 and by 2.3% in 2023. This implies that the consensus projection for the total size of London's economy by 2023 is similar to where it was last December.

The widest range of estimates for growth comes in 2022, when there is a difference of 3.2ppts between the highest and lowest output growth estimates. The highest-growth profile would see London's economy 3.1% larger than the consensus profile by 2024. This profile sees output recover to pre-pandemic trends already in the medium term. The lowest-growth profile would see London's economy 2.9% smaller than the consensus profile by 2024. The levels of output in 2024 under the highest- and lowest-growth profiles differ by just over 6%. The current range of forecasts is narrower than in December.

Annual growth



Level (constant year 2019, £ billion)



Annual growth (%)			
	2022	2023	2024
Average	4.3	2.0	1.9
Lowest	2.5	1.2	1.4
Highest	5.7	3.0	2.5

Level (constant 2019 prices, £ billion)			
	2022	2023	2024
Average	495.9	506.1	515.6
Lowest	487.7	493.8	500.7
Highest	502.9	518.1	531.3

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2.6	3.8	3.7	3.0	4.0	2.2	4.6	1.5	2.5	1.6	-9.2	8.5

History: Level (constant 2019 prices, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
370.4	384.7	398.9	411.1	427.7	437.0	457.0	463.9	475.4	482.9	438.2	475.7

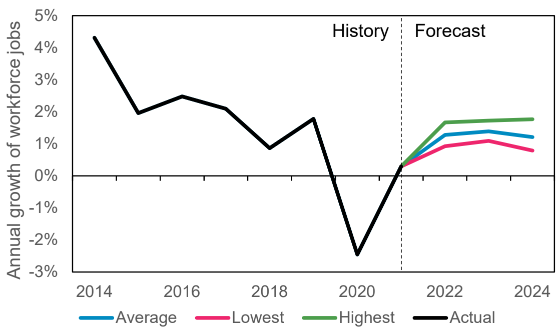
Employment
(London workforce jobs)

The consensus forecast for workforce jobs anticipates growth of 1.3% in 2022, 1.4% in 2023 and 1.2% in 2024. The consensus implies that job numbers will take until next year to recover to pre-pandemic levels.

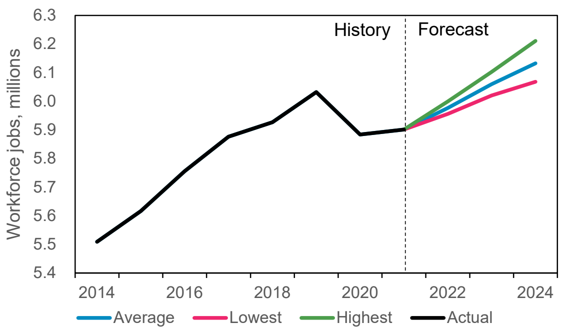
Compared to December 2021, the consensus forecast has become less negative in the near term but less positive in the medium term. The previous consensus forecast saw growth of 1.6% in 2022 and 1.5% in 2023. Overall, the consensus forecast for the size of the job market in London by 2023 has dipped marginally.

In contrast to the widely-diverging paths in December 2021, the range of projections for London's job market is now quite narrow. The widest range of growth projections is in 2024, with a 1ppt difference between the highest and lowest forecasts. The lowest-growth profile would see employment 1.1% below the consensus level by 2024, while the highest-growth profile would leave employment 1.3% above the consensus by 2024. There are 2.4% more jobs in the highest-growth profile than in the lowest-growth profile by 2024. The gap in 2023 is around 1.4%, strikingly narrower than the 7.4% range in projections from December.

Annual growth



Level (millions of workforce jobs)



Annual growth (%)			
	2022	2023	2024
Average	1.3	1.4	1.2
Lowest	0.9	1.1	0.8
Highest	1.7	1.7	1.8

Level (millions of persons)			
	2022	2023	2024
Average	5.98	6.06	6.13
Lowest	5.96	6.02	6.07
Highest	6.00	6.10	6.21

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
-0.4	1.7	4.2	2.9	4.3	2.0	2.5	2.1	0.9	1.8	-2.5	0.3

History: Level (millions of persons)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
4.8	4.9	5.1	5.3	5.5	5.6	5.8	5.9	5.9	6.0	5.9	5.9

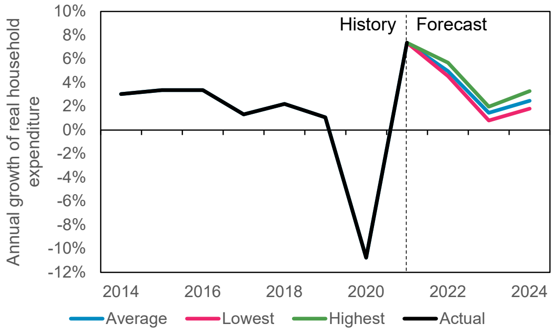
Household expenditure

The consensus forecast for consumer spending is for growth of 5% in 2022, 1.5% in 2023 and 2.5% in 2024. The consensus implies spending will reach pre-pandemic levels in 2022.

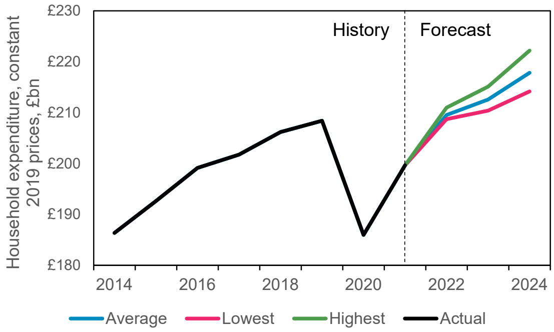
The consensus forecast is weaker than in December 2021. The previous mean projection was for growth of 6.3% in 2022 and 2.5% in 2023. Yet stronger growth in 2021 has meant the consensus forecast for spending in London by 2023 is similar to its level in December.

The widest range of growth projections is for 2024, with a 1.5ppt gap between the highest and lowest. The lowest growth profile points to the recovery largely ending in 2023, with growth slowing to well below long-term averages. This profile leaves expenditure 1.7% below the consensus by 2024. Meanwhile the highest-growth path sees spending recover to pre-pandemic trends by around 2023, with spending 2% above consensus by 2024. Overall, by 2024 expenditure is 3.7% higher in the highest-growth profile than in the lowest-growth profile, though the range is significantly narrower than in December 2021.

Annual growth



Level (constant 2019 prices, £ billion)



Annual growth (%)			
	2022	2023	2024
Average	5.0	1.5	2.5
Lowest	4.5	0.8	1.8
Highest	5.7	2.0	3.3

Level (constant year 2019, £ billion)			
	2022	2023	2024
Average	209.5	212.6	217.8
Lowest	208.7	210.4	214.2
Highest	211.0	215.1	222.2

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2.7	0.1	1.3	2.3	3.0	3.4	3.4	1.3	2.2	1.1	-10.8	7.4

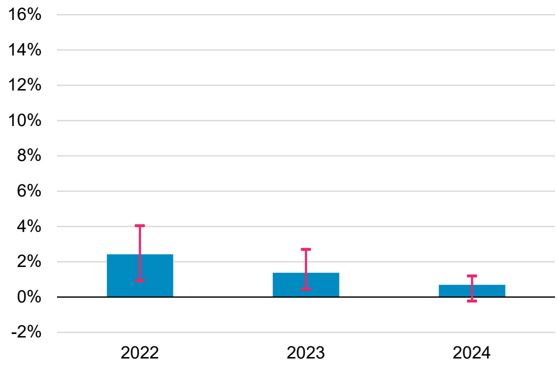
History: Level (constant 2019 prices, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
174.3	174.5	176.8	180.9	186.4	192.7	199.1	201.8	206.2	208.4	186.0	199.7

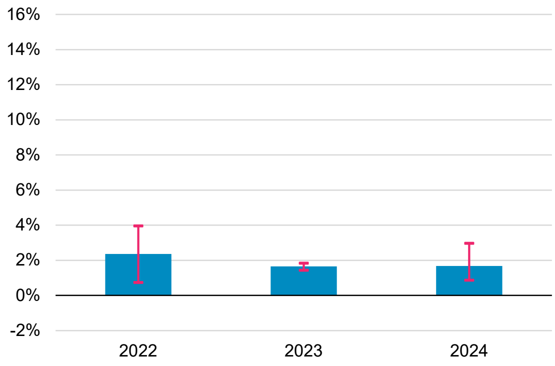
Output growth by sector

The consensus forecast sees output growing in all sectors of London's economy across 2022 to 2024. The fastest growth is expected in the Distribution, accommodation and food services sector in 2022 (9.1%). The Distribution, accommodation and food services sector also has the highest cumulative average growth of 4.1% per year from 2022 to 2024.

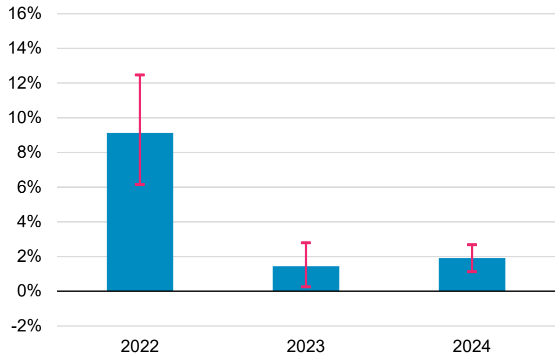
Manufacturing



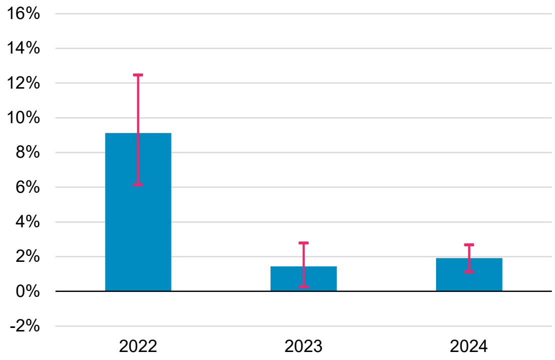
Construction



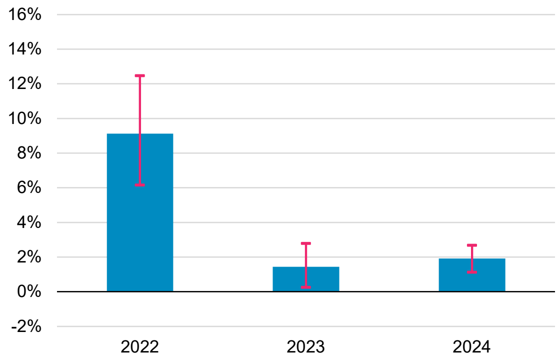
Distribution, accommodation and food service activities



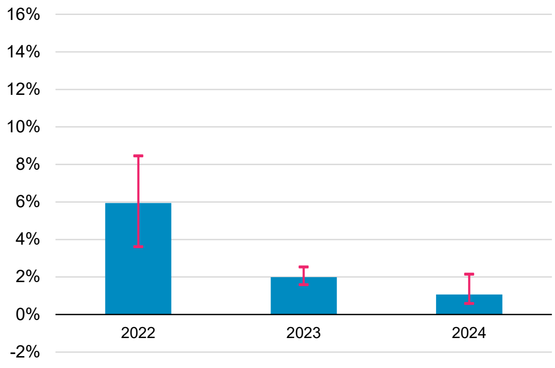
Transportation and storage



Finance and business



Other services (public and private)

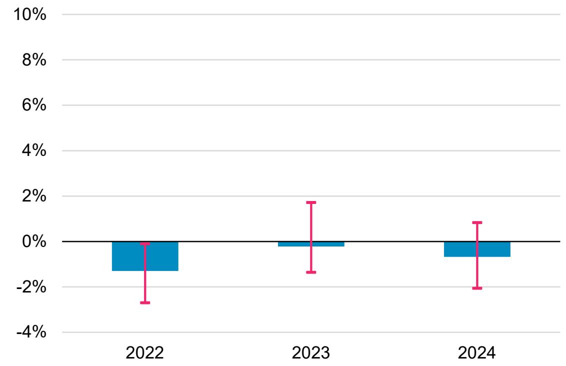


		2022	2023	2024			2022	2023	2024
Manufacturing	Average	2.4	1.4	0.7	**Construction**	Average	2.4	1.7	1.7
	Lowest	0.9	0.4	-0.2		Lowest	0.7	1.4	0.9
	Highest	4.0	2.7	1.2		Highest	4.0	1.8	3.0
Distribution, accomodation & food services	Average	9.1	1.4	1.9	**Transportation and storage**	Average	8.2	2.1	1.9
	Lowest	6.2	0.3	1.1		Lowest	3.5	0.8	0.4
	Highest	12.5	2.8	2.7		Highest	15.1	3.3	2.5
Finance and business	Average	3.1	2.3	2.2	**Other services (public and private)**	Average	5.9	2.0	1.1
	Lowest	1.2	1.1	1.7		Lowest	3.6	1.6	0.6
	Highest	4.3	3.5	2.8		Highest	8.5	2.5	2.1

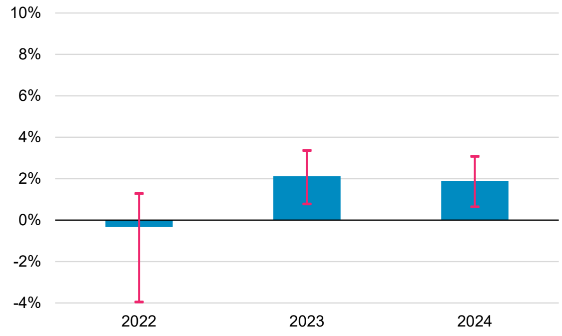
Employment growth by sector

The consensus forecast sees a varied growth picture across sectors in 2022, followed by steady growth in non-manufacturing sectors in 2023-4. The fastest expected growth is in Transport and storage in 2022 (3.1%), but this also has the widest range of estimates. Transport also has the highest cumulative average growth of 2.5% per year 2022 to 2024.

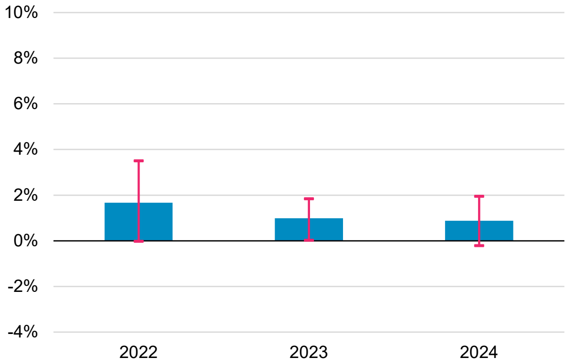
Manufacturing



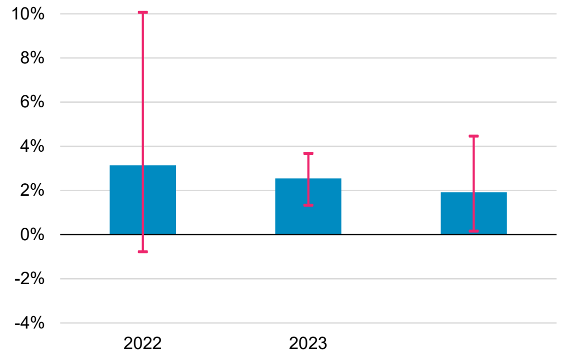
Construction



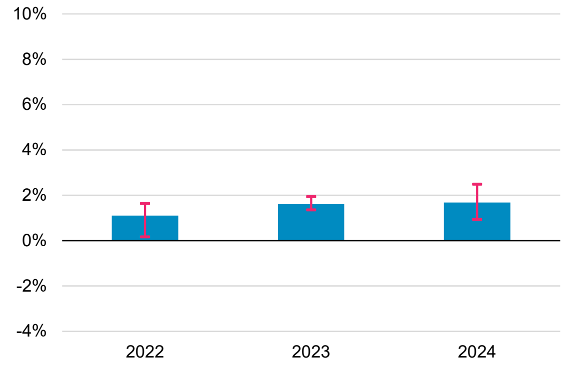
Distribution, accommodation and food service activities



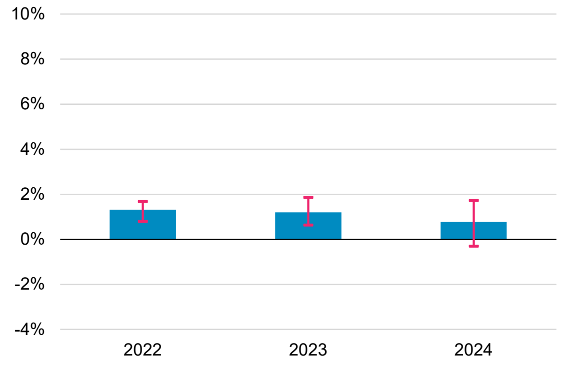
Transportation and storage



Finance and business



Other services (public and private)



		2022	2023	2024			2022	2023	2024
Manufacturing	Average	-1.3	-0.2	-0.7	**Construction**	Average	-0.3	2.1	1.9
	Lowest	-2.7	-1.4	-2.1		Lowest	-4.0	0.8	0.6
	Highest	-0.1	1.7	0.8		Highest	1.3	3.4	3.1
Distribution, accomodation & food services	Average	1.7	1.0	0.9	**Transportation and storage**	Average	3.1	2.5	1.9
	Lowest	0.0	0.0	-0.2		Lowest	-0.8	1.3	0.2
	Highest	3.5	1.8	2.0		Highest	10.1	3.7	4.5
Finance and business	Average	1.1	1.6	1.7	**Other services (public and private)**	Average	1.3	1.2	0.8
	Lowest	0.2	1.4	0.9		Lowest	0.8	0.6	-0.3
	Highest	1.6	1.9	2.5		Highest	1.7	1.9	1.7

5. The GLA Economics reference forecast

For business planning purposes (for example, the likely course of revenue), estimates of job numbers and output at a range of points in time are required. The medium-term planning projections (this forecast) provide those estimates.

This forecast differs from the GLA's long-term employment projections[103], which are trend-based. Trend projections, by definition, do not incorporate cyclical variations and the actual course of output and employment will vary around this trend. While trend projections are essential for planning to provide capacity (such as office space, housing and transport), accommodating the needs of the economy throughout and at the peak of the cycle, business planning requires estimates of actual economic aggregates, including cyclical paths.

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 historic data in the following tables and charts is GLA Economics modelling using ONS data.

As in the Autumn 2021 LEO[104] this analysis includes a measure of uncertainty around the central scenario using alternative scenarios developed by GLA Economics. The upside scenario sees a faster economic recovery as London's relatively higher-income consumers spend a larger share of their excess savings built up over the pandemic. Our downside scenario sees a slow economic recovery, as high inflation drags on real household spending power, and businesses defer investment due to weak demand. The prolonged spell of low growth also means deeper pandemic-related scarring on medium-term output and jobs.

5.1 Results

London's economic output had been growing every year from 2010 to 2019 before a major contraction in 2020. The ONS recently revised down London's 2020 total output, showing a contraction of 9.2%, from a previous estimate of 7.1%. Our baseline central scenario, which is consistent with Bank of England and OBR projections, does suggest that a firm recovery in output was underway in 2021, with output regaining its losses from the pandemic by Q4.

However, after this firm progress, we now see less reason for optimism. With inflation at 40-year highs, the Bank of England and international organisations have revised down the UK outlook over successive recent forecasts. Consistent with this approach, we now see a medium-term gap of around 2% opening by 2024 between the central scenario for London's output and our pre-pandemic forecasts, compared to a roughly 1.5% gap in December.

On the employment side, our forecast has worsened slightly since the Autumn 2021 LEO. The government's pandemic support protected jobs from the same scale of contraction as output. But a worse activity outlook in the medium term will drag on jobs growth, and we continue to expect a full recovery to take until 2023.

Our forecasts for household income and spending have also faced a downgrade. Where we previously expected income to grow every year across the forecast period, we now see it contracting by 2.5% in 2022, and taking until 2024 to recover this loss. Consumer spending is currently set to grow in each year from 2022 to 2024, but has received a downgrade of well over 1ppt to its growth forecast in 2022 and 2023. Spending has seen less of a downgrade than income as we expect some release of the excess savings built up over the pandemic.

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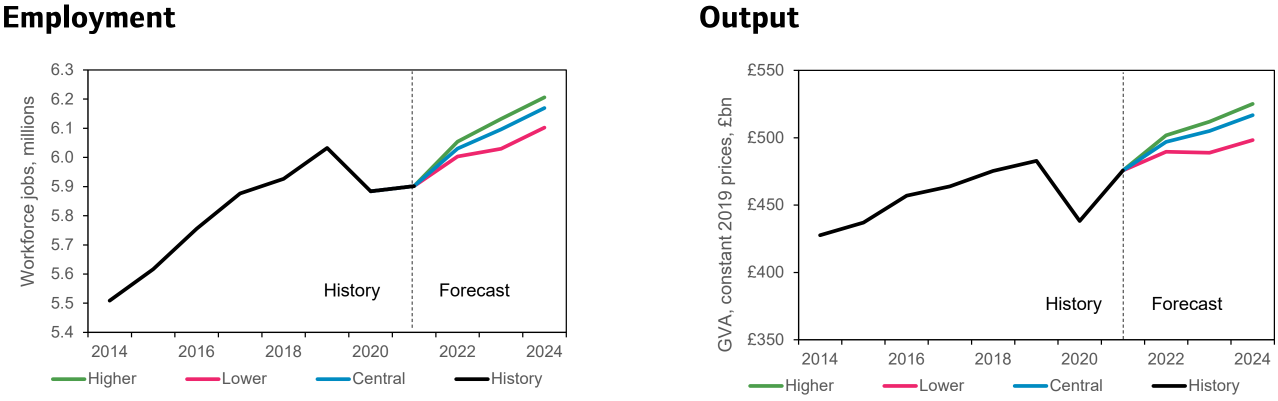
[103] GLA Economics (2017). '[London labour market projections 2017]'.
[104] GLA Economics (2021). '[London's Economic Outlook: Autumn 2021]'

Figure 5.1: GLA Economics' forecasts and scenarios for employment and output



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

Table 5.1: Central scenario-based forecast and historical growth rates
(Annual % change)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GVA	2.2	4.6	1.5	2.5	1.6	-9.2	8.5	4.5	1.6	2.3
Workforce jobs	2.0	2.5	2.1	0.9	1.8	-2.5	0.3	2.2	1.1	1.2
Household spending	3.4	3.4	1.3	2.2	1.1	-10.8	7.4	5.2	1.5	2.5
Household income	8.1	1.9	1.4	4.1	2.0	0.0	1.5	-2.5	2.2	2.9

Table 5.2: Scenario-based forecast and historical levels
(constant 2019 prices, £ billion except jobs)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
GVA	437.0	457.0	463.9	475.4	482.9	438.2	475.7	497.0	505.0	516.8
Workforce jobs (million)	5.6	5.8	5.9	5.9	6.0	5.9	5.9	6.0	6.1	6.2
Household spending	192.7	199.1	201.8	206.2	208.4	186.0	199.7	210.0	213.0	218.3
Household income	246.5	251.1	254.5	265.0	270.2	270.1	274.2	267.3	273.1	281.1

Output

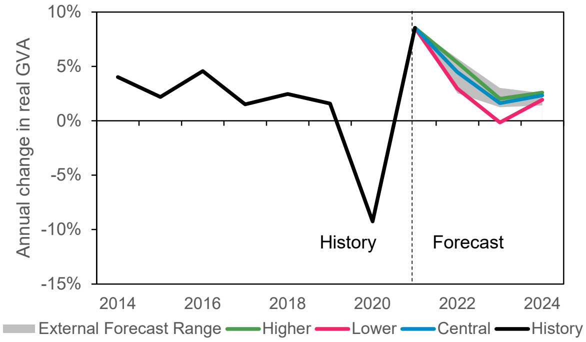
(London GVA, constant prices (base year 2019), £ billion)

GLA Economics projects that London's real GVA grew 8.5% in 2021, and we expect growth of 4.5% in 2022, 1.6% in 2023 and 2.3% in 2024. This profile is consistent with a recovery to pre-pandemic levels of activity by late 2021, but a much longer time taken to reach the trend anticipated in our forecasts before March 2020.

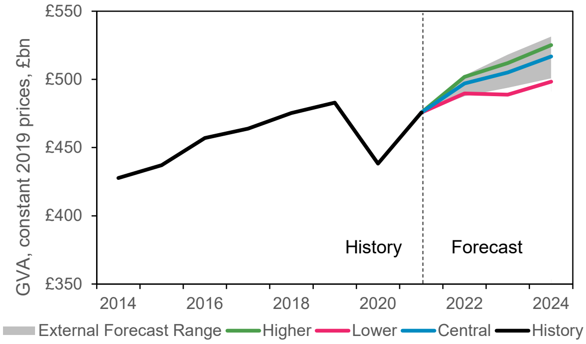
The recovery in 2021 has received another upgrade compared to our Autumn LEO forecast, but the medium-term profile is weaker amid concerns around inflation dragging on demand. Our forecast in December 2021 was for growth of 6.4%, 5%, and 3.1% in 2021, 2022 and 2023 respectively. Combined with downward revisions from the ONS to the 2020 level of GVA, the level of London's output by 2024 is around 1.3% smaller.

Under all the scenarios, London's economy has largely recovered its 2019 level by the end of 2021. However, the profiles otherwise differ widely. Our upside scenario sees high-income consumers spending more of their savings and propping up growth in 2022 and 2023. Our downside scenario's pessimistic assumptions about Londoners' ability to absorb real income losses sees output contract across 2023 on average. As a result, projected output by 2024 in the upside scenario is around 5.7% above the level projected in the downside scenario.

Annual growth (%)



Level (constant 2019 prices, £ billion)



Growth (annual %)				
	2021	2022	2023	2024
Gradual return to economic recovery	8.5	4.5	1.6	2.3
Fast economic recovery		5.5	2.0	2.6
Slow economic recovery		2.9	-0.2	1.9

Level (constant 2019 prices, £ billion)				
	2021	2022	2023	2024
Gradual return to economic recovery	475.7	497.0	505.0	516.8
Fast economic recovery		501.8	511.9	525.1
Slow economic recovery		489.6	488.8	498.2

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2.6	3.8	3.7	3.0	4.0	2.2	4.6	1.5	2.5	1.6	-9.2	8.5

History: Level (constant 2019 prices, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
370.4	384.7	398.9	411.1	427.7	437.0	457.0	463.9	475.4	482.9	438.2	475.7

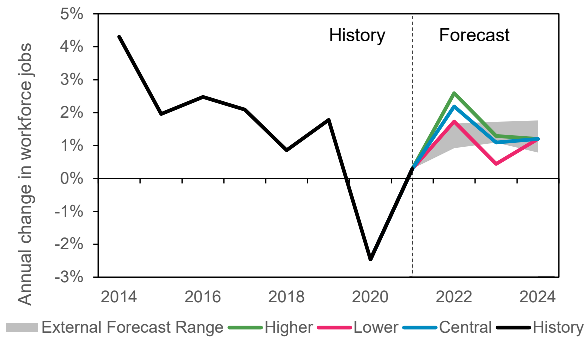
Employment
(London workforce jobs)

GLA Economics projects London's workforce jobs to grow 2.1% in 2022, 1.1% in 2023 and 1.2% in 2024. As a result, we expect London's workforce jobs to take until mid-2023 to recover fully.

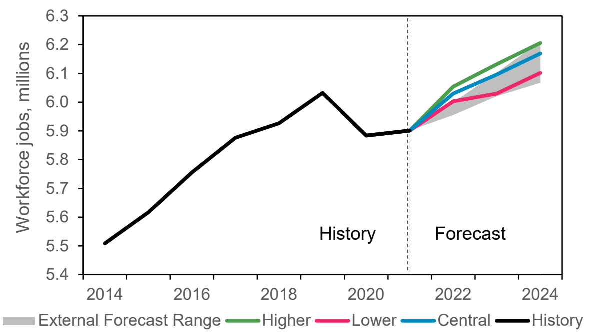
This outlook is similar to our forecast in the Autumn LEO, which anticipated 2.1% growth in employment this year, followed by growth of 1.2% in 2023. However, downward revisions to the level of employment in 2020 and modest cuts in medium-term job growth leave the forecast anticipating around 0.4% fewer jobs by 2023. The new forecast also represents a 0.6% downgrade for 2024 job numbers compared to the scenarios from February 2022.

The range across our employment scenarios is slightly narrower than in the Autumn LEO. The fast recovery scenario sees around 1.7% more jobs by 2023 than the slow recovery scenario, from 2% in December 2021. Our scenario range is narrower than in December, but it is still wider than the range of external forecasts in most years. While this is partly because the external forecasts are all baseline paths, some forecasts also seem to underestimate the impact on the 2022 outlook from firm job growth in late 2021. We think the key risk is for weak average growth in the coming quarters, rather than a sharp near-term drop.

Annual growth (%)



Level (millions of workforce jobs)



Growth (annual %)				
	2021	2022	2023	2024
Gradual return to economic recovery	-2.5	2.5	1.1	1.2
Fast economic recovery		2.9	1.3	1.2
Slow economic recovery		2.0	0.4	1.2

Level (millions of workforce jobs)				
	2021	2022	2023	2024
Gradual return to economic recovery	5.9	6.0	6.1	6.2
Fast economic recovery		6.1	6.1	6.2
Slow economic recovery		6.0	6.0	6.1

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
-0.4	1.7	4.2	2.9	4.3	2.0	2.5	2.1	0.9	1.8	-2.5	0.3

History: Level (millions of persons)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
4.8	4.9	5.1	5.3	5.5	5.6	5.8	5.9	5.9	6.0	5.9	5.9

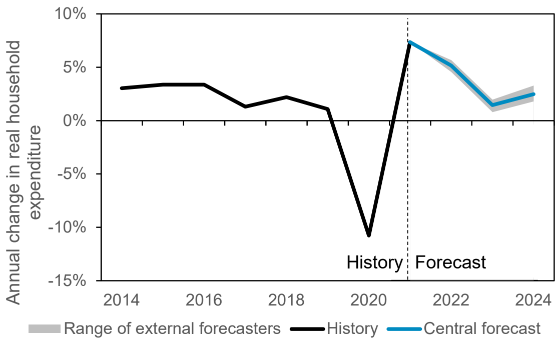
Household expenditure

(London household spending, constant prices (base year 2019), £ billion)

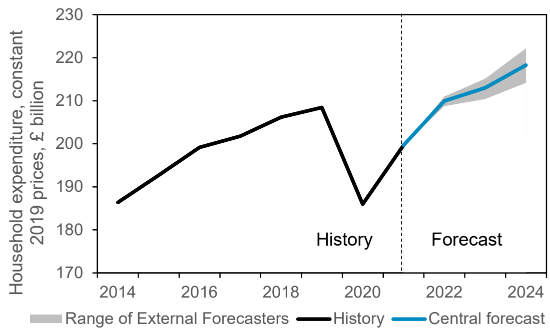
GLA Economics forecasts consumer spending to grow by 5.2% in 2022, before falling below longer-term averages with growth of 1.5% in 2023. We then expect to see spending growth of 2.5% in 2024, which is slightly above longer-term averages. This profile implies household spending is set to recover to pre-pandemic levels in 2022 – slightly behind total output.

Broadly in line with the external consensus, this profile front-loads growth much more than in the Autumn LEO. In December 2021, the GLA forecast anticipated growth of 6% in 2021, followed by 6.9% in 2022 and 2.6% in 2023. While the 2021 recovery proved stronger than expected, rising inflation has significantly dampened our optimism for 2022 and 2023, though we expect a resumed recovery in 2024.

Annual growth (%)



Level (constant year 2019, £ billion)



History: Annual growth (%)

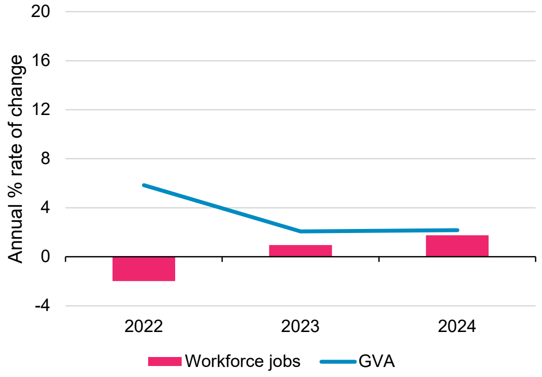
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2.7	0.1	1.3	2.3	3.0	3.4	3.4	1.3	2.2	1.1	-10.8	7.4

History: Level (constant year 2019, £ billion)

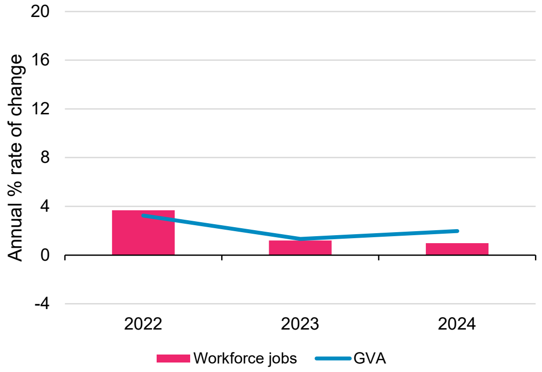
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
174.3	174.5	176.8	180.9	186.4	192.7	199.1	201.8	206.2	208.4	186.0	199.7

Output and employment growth by sector (% annual change)

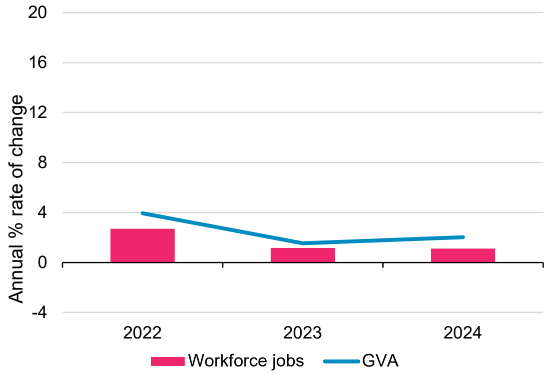
Financial services



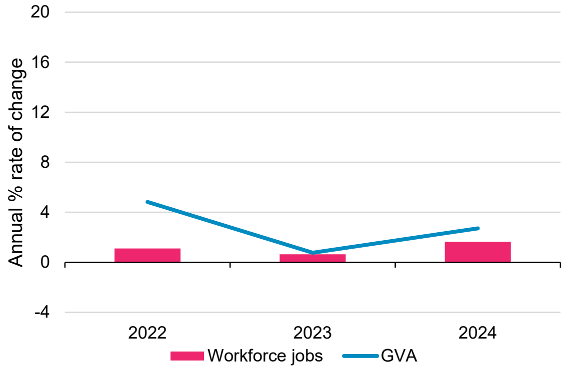
Business services



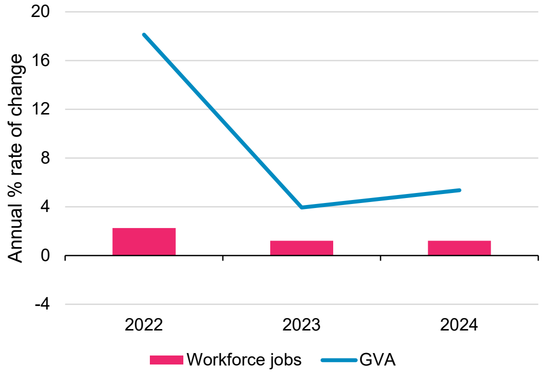
Finance and business (combined)



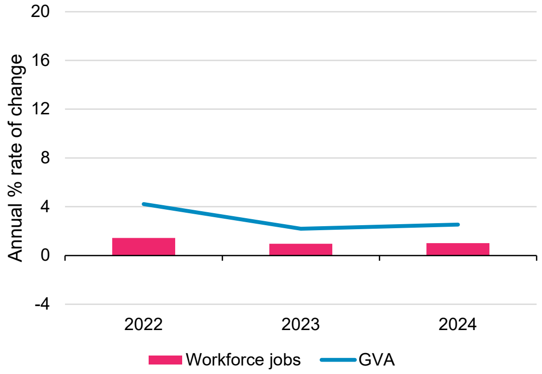
Distribution, accommodation and food services activities



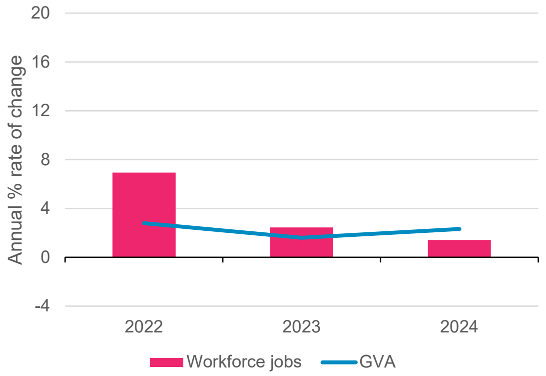
Transportation and storage



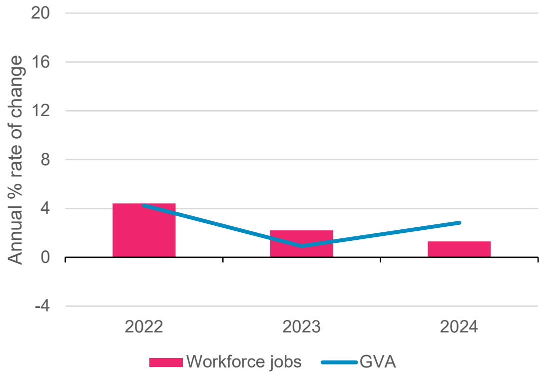
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector (% annual change)

Main sector	2022	2023	2024
Financial services			
Output	5.8	2.1	2.2
Jobs	-2.0	1.0	1.8
Business services			
Output	3.3	1.3	2.0
Jobs	3.7	1.2	1.0
Financial and business services combined			
Output	3.9	1.5	2.0
Jobs	2.7	1.2	1.1
Distribution, accommodation and food services			
Output	4.8	0.8	2.7
Jobs	1.1	0.6	1.6
Transportation and storage			
Output	18.1	3.9	5.3
Jobs	2.3	1.2	1.2
Other (public & private) services			
Output	4.2	2.2	2.5
Jobs	1.4	1.0	1.0
Manufacturing			
Output	2.8	1.6	2.3
Jobs	6.9	2.4	1.4
Construction			
Output	4.2	0.9	2.8
Jobs	4.4	2.2	1.3
(Memo: non-manufacturing)			
Output	4.5	1.6	2.3
Jobs	2.1	1.1	1.2

5.2 Comparison with previous forecasts

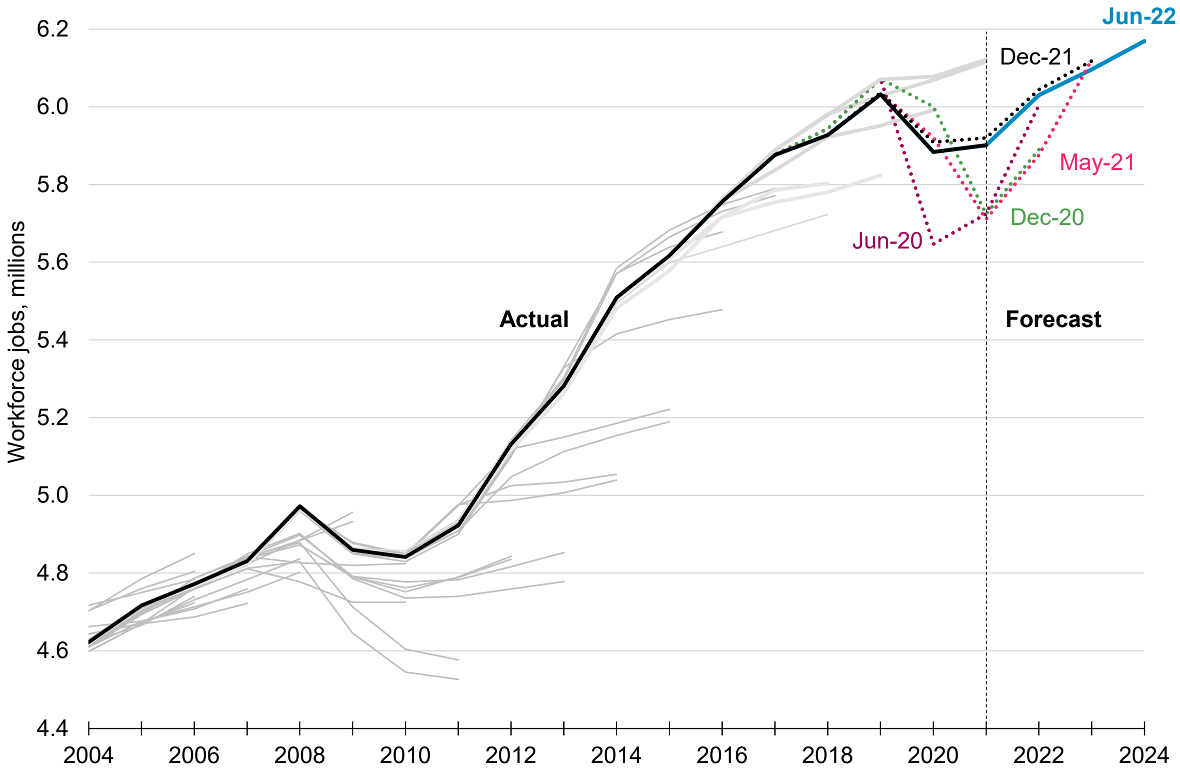
This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparisons in Figures 5.2 and 5.3.

It should also be noted that the large variation seen in the forecasts produced in 2020 and 2021 compared to previous forecasts reflect the challenges of undertaking economic forecasts in an environment of unprecedented uncertainty and reflects in part the evolving knowledge of public health and economic policy responses.

Workforce jobs

The level of London's workforce jobs is only expected to reach its 2019 level in 2023. The medium-term profile of the forecast is similar to the December 2021 forecast, but a significant improvement on the trajectory of the two forecasts constructed in 2020. This reflects the successive extensions of the furlough scheme and the lack of job disruption from the end of the scheme.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(thousands of workforce jobs)



Source: ONS, GLA Economics; Note: grey lines show job levels under historic GLA Economics forecasts of employment growth. The last five GLA Economics forecasts are also shown (and labelled) in colour.

Table 5.3: Comparisons with previous published forecasts[105]

(London workforce jobs, % annual growth)

Forecast	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Jun-22	**-0.4%**	**1.7%**	**4.2%**	**2.9%**	**4.3%**	**2.0%**	**2.5%**	**2.1%**	**0.9%**	**1.8%**	**-2.5%**	**0.3%**	**2.2%**	**1.1%**	**1.2%**
Dec-21												0.2%	2.1%	1.2%	
May-21												-3.6%	2.9%	4.2%	
Dec-20											-1.1%	-4.6%	3.0%		
Jun-20											-7.0%	1.4%	4.9%		
Dec-19										1.5%	0.1%	0.7%			
Jun-19										0.8%	0.7%	0.8%			
Nov-18									1.5%	0.5%	0.7%				
May-18									0.6%	0.3%	0.7%				
Nov-17								1.4%	0.3%	0.5%					
Jun-17								0.7%	0.5%	0.7%					
Nov-16							2.5%	1.2%	0.3%						
May-16							0.7%	0.7%	0.7%						
Nov-15						1.7%	1.2%	0.7%							
May-15						1.7%	1.2%	0.7%							
Nov-14					4.5%	1.2%	0.7%								
May-14					1.6%	0.7%	0.5%								
Nov-13				1.3%	0.8%	0.7%									
Jul-13				0.6%	0.7%	0.7%									
Nov-12			1.0%	0.2%	0.4%										
Jun-12			0.2%	0.4%	0.6%										
Nov-11		0.1%	0.4%	0.4%											
May-11		0.1%	0.7%	0.8%											
Oct-10	-0.6%	0.6%	1.0%												
Jun-10	-0.8%	0.8%	1.1%												
Oct-09	-2.3%	-0.6%													
Apr-09	-2.2%	-0.4%													
Oct-08	0.0%														
May-08	0.1%														

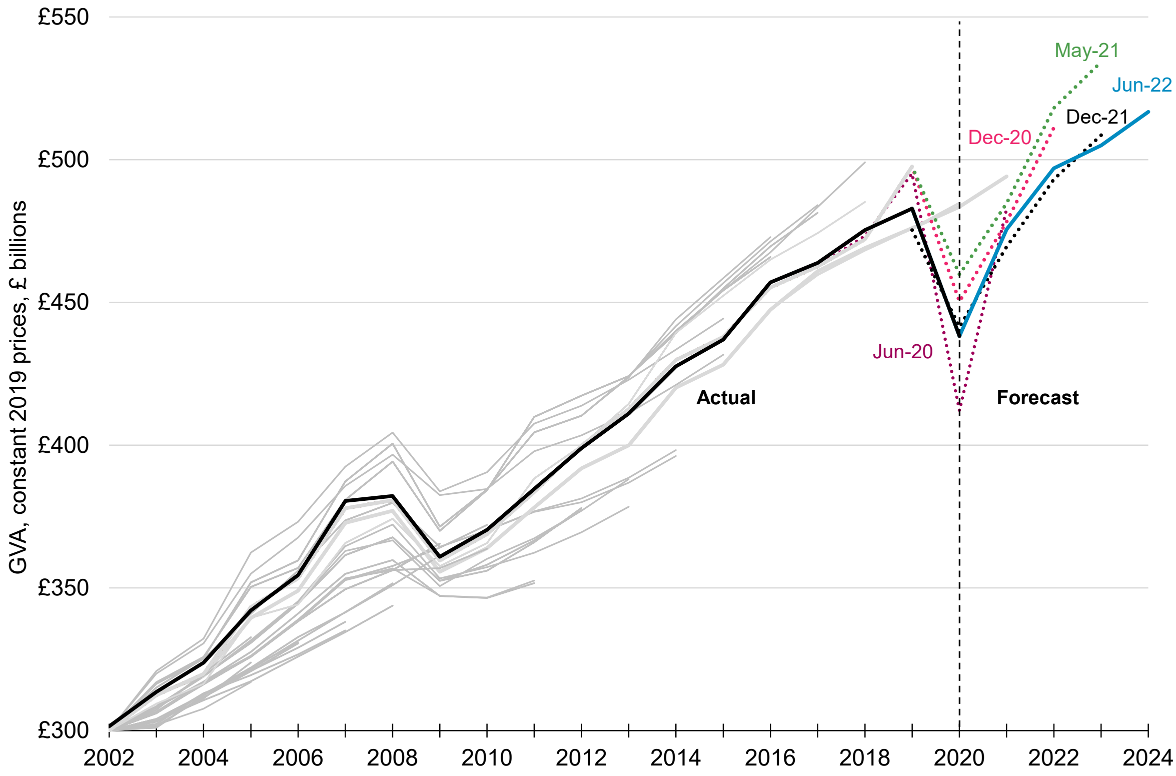
Source: ONS, GLA Economics

[105] This table only reports forecasts for 2010 onwards unlike Figure 5.2. For earlier GLA Economics forecasts please see previous editions of London's Economic Outlook.

Output

The most recent medium-term scenario-based forecast for London's GVA level has output somewhat lower than the December 2021 scenario-based forecast, and generally lower than most forecasts since 2020. The historic level of London's GVA has been revised downwards in 2019 and 2020, making the comparison less clear-cut. A stronger growth profile in 2021 than in most previous editions (June 2020 excepting) reflects the limited effect on London's GVA from the third national lockdown in late 2020 and early 2021, as well as a faster-than-expected rebound in the second half of 2021. The lower medium-term growth forecasts are consistent with revisions to national-level forecasts.

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant prices (base year 2019), £ billion)



Source: ONS, ESCoE, GLA Economics; Note: the grey lines show levels of GVA given historic GLA Economics forecasts of GVA growth. The last five GLA Economics forecasts are also shown (and labelled) in colour.

Table 5.4: Comparisons with previous published forecasts[106]
(London GVA, % annual growth)

Forecast	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Jun-22	**2.6%**	**3.8%**	**3.7%**	**3.0%**	**4.0%**	**2.2%**	**4.6%**	**1.5%**	**2.5%**	**1.6%**	**-9.2%**	**8.5%**	**4.5%**	**1.6%**	**2.3%**
Dec-21												6.4%	5.0%	3.1%	
May-21												5.4%	6.9%	3.1%	
Dec-20											-9.5%	6.2%	6.9%		
Jun-20											-16.8%	17.2%	4.5%		
Dec-19										1.8%	1.1%	1.8%			
Jun-19										1.5%	1.6%	2.2%			
Nov-18									1.9%	1.6%	1.9%				
May-18									1.6%	1.9%	2.2%				
Nov-17								2.1%	1.8%	2.6%					
Jun-17								2.3%	2.4%	2.9%					
Nov-16							2.8%	2.0%	2.3%						
May-16							2.9%	3.4%	3.3%						
Nov-15						3.4%	3.2%	2.7%							
May-15						3.6%	3.2%	2.5%							
Nov-14					4.8%	3.3%	3.1%								
May-14					3.8%	3.2%	2.6%								
Nov-13				2.2%	2.5%	2.5%									
Jul-13				1.9%	2.4%	2.5%									
Nov-12			0.9%	1.8%	2.4%										
Jun-12			1.2%	1.9%	2.5%										
Nov-11		1.4%	2.0%	2.4%											
May-11		2.0%	2.6%	2.9%											
Oct-10	1.6%	2.4%	2.9%												
Jun-10	1.0%	2.8%	3.3%												
Oct-09	-0.2%	1.5%													
Apr-09	-0.2%	1.7%													
Oct-08	1.9%														
May-08	2.2%														

Source: ONS, ESCoE, GLA Economics

[106] This table only reports forecasts for 2010 onwards, unlike Figure 5.3. For earlier GLA Economics forecasts please see previous editions of London's Economic Outlook.

Appendix A: Explanation of terms and some sources

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report 'employment' refers to 'workforce jobs' and uses the ONS historical series as a base for the forecast.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

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[107]. 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; in some cases, the expenditure of non-profit organisations is included and in other cases it is not.

[107] 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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