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Inflation picks up sharply in October, with higher rates still to come

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October saw annual CPI inflation accelerate sharply to 4.2% from 3.1% in September. This annual reading is a ten-year high, while the monthly price increase of 1.1 percentage points is perhaps even more striking as the fastest in nearly 30 years.

While inflation was broad-based, the largest contributions came from housing and transport. Ofgem increased its standard tariff rate by 12% last month following seven-year highs in natural gas prices. As a result, housing and housing services prices were up 6.8% annually, up from 1.9% in September, with electricity, gas and other fuels serving as the main driver. Annual inflation for electricity reached 18.8%, with 28.1% for gas. As global oil prices also pushed close to seven-year highs and retailers recovered from shortages in September, domestic petrol prices hit their highest rate since 2012. This prompted a sharp rise in transport prices of 9.9% year-on-year. Most of the increase in transport inflation came from higher fuel costs, though other supply chain challenges played a role. Semiconductor shortages have continued to depress the availability of new cars, sharply raising demand and prices for second-hand vehicles – CPI for used cars has risen over 27% since April 2021.

October's price acceleration was sharp, but the Bank of England's November Monetary Policy Report did anticipate a significant increase in inflation in Q4 and had been expected to raise rates although that did not happen this month. The Bank now thinks inflation will peak above 5% in spring 2022 as Ofgem increases its tariff cap again in April, while global commodity prices and supply chain challenges ease

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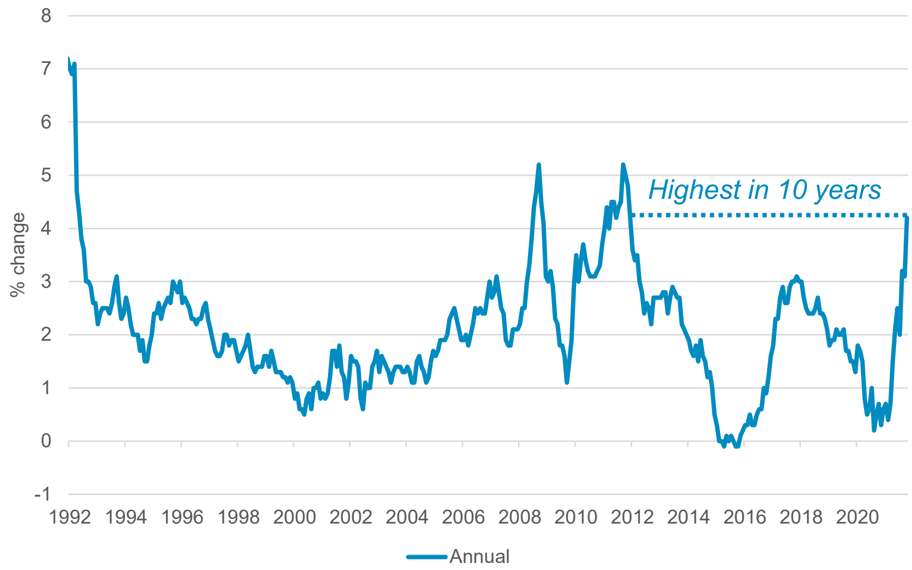
Datastore

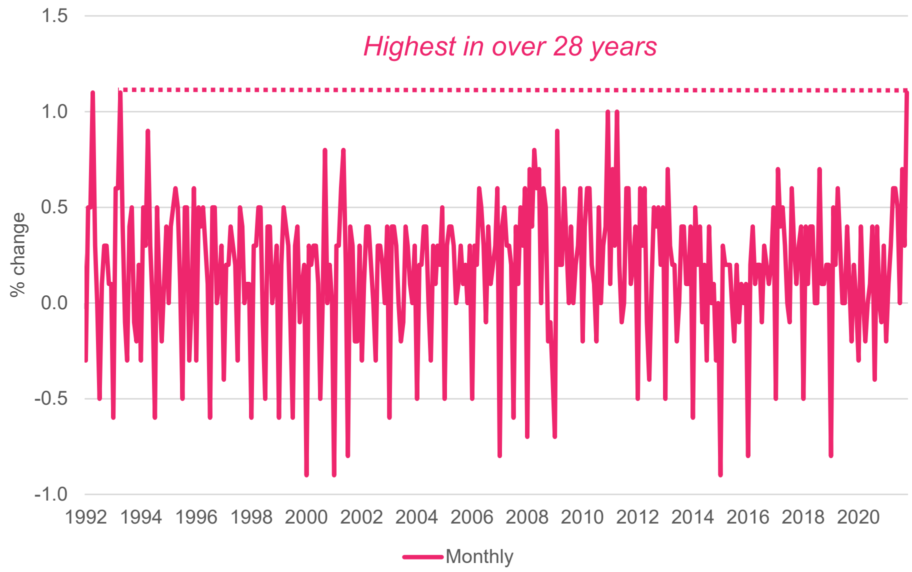
The main economic indicators for London are available to download from the London Datastore.

only slowly. If shipping, oil and gas prices do not begin to come off their peaks in the coming months, there will be further upside risks to this already-high forecast. This, in turn, could lead to greater pressure for the Bank to raise rates faster, potentially dampening the recovery.

Figure 1: UK CPI inflation in annual and monthly terms

Source: ONS





UK GDP slows in Q3, but London may have seen more consistent growth

The UK grew at a slower-than-expected 1.3% in Q3, with downward revisions to monthly GDP in July (now a 0.2% contraction) and August (now only 0.2% growth). September was stronger than expected at 0.6% monthly growth, but around two thirds of the strong growth in service sectors came from Health as GP appointments rose sharply. Adding to the subdued tone around GDP, the Bank of England also revised down its long-term growth forecasts, leaving the UK economy 2% permanently smaller than pre-pandemic projections – down from around 1% before this latest reassessment. In the nearer term, the Bank expects 7% growth this year and 5% next year, down from 7.3% and 6% in its previous Monetary Policy Report.

Sectors in which London specialises were mixed in September, as some like IT (-2.3%) and Financial services (-0.2%) did poorly, while others like Professional services (2.1%) did well. IT activity is now at its lowest level since December 2020, while finance has been steadier. Professional services may have been upwardly distorted due to a dash for legal services as homebuyers closed out purchases before the stamp duty holiday ended.

Reweighting the national GDP index to match London's industry mix suggests that growth for the capital may have been faster than the national data in July and August, but largely in line with UK growth in September. Across the pandemic, London's industrial mix has generally pointed to an outperformance of UK averages during quarters of contraction, but a softer recovery during periods of growth at the UK level. Across the whole period London has outperformed the UK. Google mobility data for London is also consistent with stronger growth than the national average in July and August, but a similar pace in September (Figure 2).

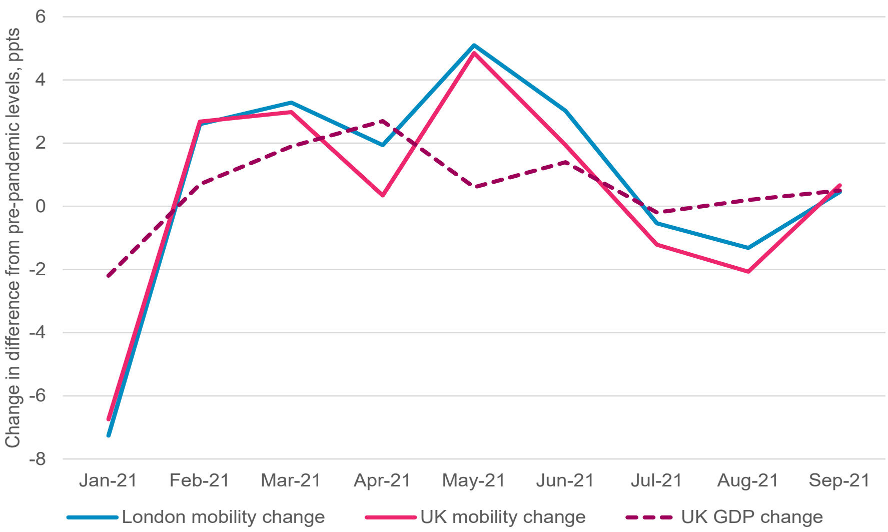


Figure 2: Change in mobility weighted by GDP and GDP index, proportional to pre-pandemic levels
Last data point: September 2021

Source: Google mobility, ONS, GLA calculations; Note: mobility indices weighted to match monthly GDP proportional difference from pre-pandemic levels, GDP calculation is change in proportional difference from pre-pandemic levels.

London's retail sector may be doing better than average, but the CAZ is still struggling

In amongst the details of the September GDP data, customer-facing services did poorly at the UK level, which was mostly due to retail trade. Other high-contact services did much better, with Accommodation and food services growing 2.3%, while Arts and entertainment growth was also strong (1.2%). Growth in Accommodation and food services was strong enough that at the national level, output in the sector is now around 4% above pre-pandemic levels.

There may be some more promising signs for London's retail sector compared to the wider UK. Firstly, most of the 1.5% drop in output in the retail sector across September was due to a sizeable 13.3% fall in vehicle sales activity as supply chain challenges limited availability. Yet Londoners usually spend on average 20% less on buying vehicles than the average UK consumer, so the capital's retail sector may not be as heavily affected by bottlenecks on car sales. Secondly, as shown in the indicators section, London's consumer confidence pushed slightly positive in November (+1), much stronger than the clearly negative national reading (-14), which should translate into a greater spending appetite in the capital. Indeed, the latest Mastercard data show total card spending on retail approaching its pre-pandemic level in late October.

However, within London the distribution of the retail recovery remains uneven. Mastercard data still show a clear hollowing out of spending from the centre of the city. The four central boroughs of the City of London, Camden, Westminster and Kensington and Chelsea are still seeing card spending levels below the pre-pandemic norm, and the recovery is only just complete in some of the adjoining boroughs in the Central Activities Zone (CAZ) (Figure 3). It is also worth noting that in some boroughs, the average strength of retail card spending is significantly above pre-pandemic levels. This may be at least partially explained by a combination of inflation and a shift towards card spending away from cash (a trend that pre-dates the pandemic). It is also worth noting that within most boroughs some High Streets have recovered better than others.

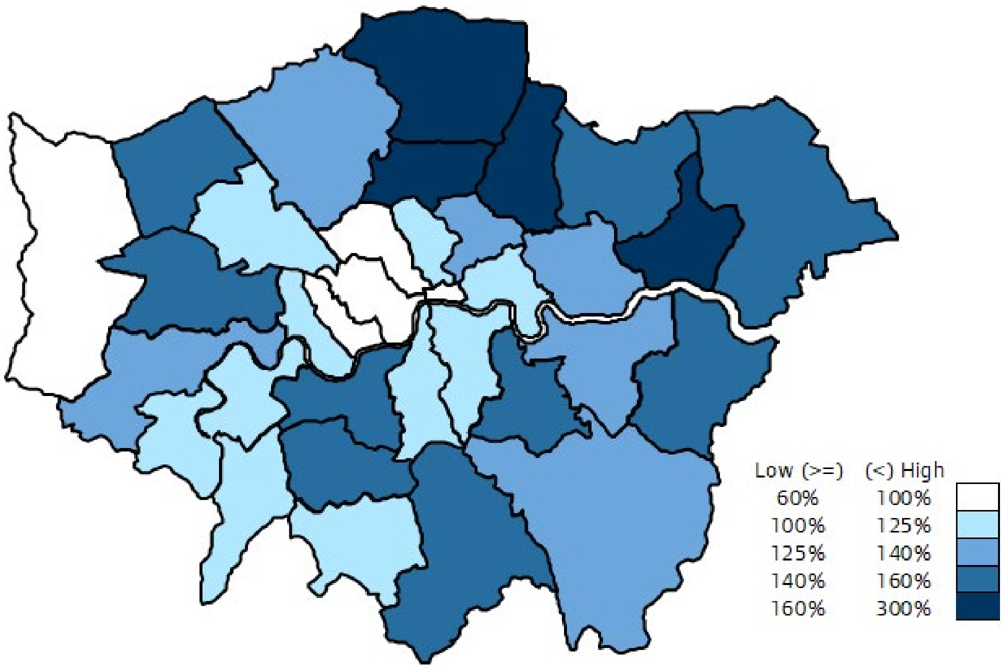


Figure 3: Payment card retail spending, October 2021 compared to pre-pandemic norm

Source: Anonymised and Aggregated data by Mastercard and City Intelligence Unit analysis

London labour market continues to improve despite the end of the furlough scheme

Looking at the labour market recovery from the pandemic the latest ONS data for London indicates that jobs continue to rise, and unemployment is still falling, although London is performing worse than the rest of the UK. London residents who were payrolled employees rose by around 30,600 or 0.7% between September and October, although this remains 0.6% below pre-pandemic (February 2020) levels. It compares with a 0.8% increase in payrolled employees across the UK, and numbers for all other countries and regions are above February 2020 levels. The London unemployment rate was estimated at 5.6% for the three months ending in September, down 0.8 percentage points on the quarter but above the UK average of 4.3%.

This is consistent with the view that there has been a soft ending to the Coronavirus Job Retention Scheme, or furlough scheme. Surveys by the ONS and the Resolution Foundation of furlough leavers support this conclusion. When the scheme finished in September there were 231,000 Londoners still on it. This month's LET supplement reports on the history of the scheme.

Inner London house prices fall

The ONS's latest population estimates for London find that London's population rose in 2020 to slightly over 9m. This is despite the likelihood that some EU migrants have returned to their home country during the pandemic, and media stories of families settling outside the capital. The latest ONS data on house sales and prices indicates that there was a fall in sales in the year to Q1 2021 suggesting that any increase in out-migration was not by homeowners. The level of London sales was similar to those after the 2008 financial crisis, and the fall continues the trend since 2016 – sales were half the level they were in 2008 and earlier. Mean sale prices (after inflation) in the capital were unchanged for the second year running (Figure 4). Within London house sales fell across the city, while there were falls in median (and mean) house prices (after inflation) in several local authorities in inner London and rises in most local authorities elsewhere in London.

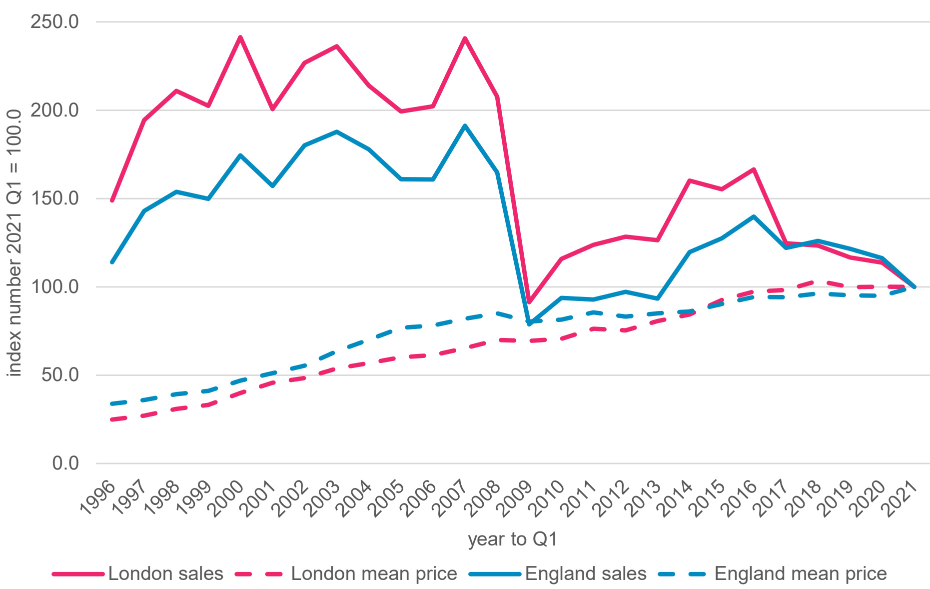


Figure 4: House sales and mean prices after inflation, London and England, annual figures in index numbers, 1996 Q1 to 2021 Q1

Source: ONS and GLA Economics calculations

Note: nominal prices converted to real terms using the GDP deflator

Europe sees COVID-19 cases rise sharply, and London could be at risk of further disruption

The pandemic however continues with Europe seeing a sharp rise in new cases of COVID-19, with new daily cases more than doubling over the last month to above 400 per 100,000 across the EU in the week ending 19 November. This is largely in line with the UK's current pace of new cases, which however has been trending down since mid-October. This is also the highest pace of new cases for the rest of Europe since April, when many countries were forced to tighten lockdown measures. This new wave of virus cases could prompt a response in the same direction, with several countries already implementing partial lockdowns, including the Netherlands, while Austria has moved to a full lockdown. Others such as Ireland, Slovakia and the Czech Republic are introducing intermediate restrictions like partial curfews and a return to working from home.

Vaccination efforts are going to be a central factor in how damaging this new wave of cases will be. While different countries' case rates are only weakly (negatively) correlated with their vaccination rates, over two thirds of the variation in death rates across different countries in Europe can be explained by the share of their adult population that has received a second vaccine dose. Around half of the EU/EEA countries have a full vaccination rate of over 80%, with some even above 90%, but some in central and eastern Europe have rates below 70%. If the latest wave of cases and lockdowns escalates, this could offer a further shock to London's economy, initially from reduced export demand, but with the growing threat of more virus cases spreading to the UK and prompting further activity restrictions. While in recent months case numbers have been better controlled in London than in the UK overall, the damage from any fresh surge in cases could put Londoners at greater risk, as at just over 60% the city's full vaccination rate is much lower than the UK average of around 80%.

COP26 heralds the rise of Green Finance

Beyond the pandemic COP26 took steps to reduce global net carbon emissions to zero by 2050, and reduce them by half this decade. It clarified that the ambition was to maintain global warming to 1.5°C, and to produce further national commitments next year. In the run up to COP26 the government published its 'Greening Finance Roadmap' to support its ambition to develop the City of London into the leading global centre for green finance. London is already top in the Long Finance global ranking of green finance centres. The Roadmap sets out three stages involved in aligning the UK's financial system with its commitment to net zero emissions by 2050:

- Making information relating to sustainability available for financial decisions makers. All companies, including financial services firms, would be required to set out detailed public plans on how to move to a low carbon future by 2023;
- Ensuring this information becomes embedded in financial and business decision making;
- Changing financial flows within the UK so that they align with net zero commitments.

In other developments the Bank of England will no longer buy bonds from companies that make money from the mining of thermal coal, and will only purchase from carbon-intensive organisations that had a target for cutting greenhouse gas emissions. The London Stock Exchange, for its part, plans to launch listed carbon funds that would allow investors to buy carbon offsets, the units used by organisations to compensate for their emissions. This would address the difficulty faced by offset project developers of accessing capital at scale, and by buyers of accessing a long-term source of supply of the units. There are concerns that some companies buy the units in place of reducing their emissions, and that some projects funded in this way would have happened anyway – that is, they also do not contribute to a reduction in carbon emissions.

This will complement the work of the Glasgow Financial Alliance for Net Zero. More than 450 leading financial institutions, including banks, insurers, pension funds, export credit agencies and asset managers, from 45 countries, have committed to managing their assets of more than $130tn in the line with 1.5°C. This compares with the total cost of the global transition which has been estimated to be around $4tn every year for the next three decades.

Brexit rows continue to simmer

Further to last month's dispute over access to fishing waters, tensions between the UK and the EU have been rising again over the implementation of post-Brexit trading arrangements for Northern Ireland. Last month, the EU announced some simplifications to the implementation of the Northern Ireland protocol which addressed many of the concerns of the business community. This has not addressed sufficiently the demands of the UK government, and specifically that dispute resolution is overseen by the European Court of Justice. The UK government has threatened to trigger Article 16, because it believes the arrangement has caused "serious economic, societal or environmental difficulties" or the "diversion of trade". The EU would respond if this happened, and, ultimately, the entire EU-UK Trade and Cooperation Agreement (TCA) could be terminated. There would be adverse implications for all of the UK, although as the TCA does not cover services London might be comparatively less affected.

Flights re-start to the USA

On 8 November British Airways and Virgin Atlantic flights simultaneously left Heathrow Airport for the USA more than 600 days after the introduction of the US travel ban. Its lifting should be a significant fillip for the travel market. In 2019, there were 4.8m overnight visits to England from the US, of which 3.6m (or three-quarters) were to London according to the ONS. A sixth of the 21.7m overnight visits to London that year were from North America. Heathrow Airport reports that passenger numbers fell by 97% at the start of the pandemic, and in October remained 57% below their pre-pandemic level.

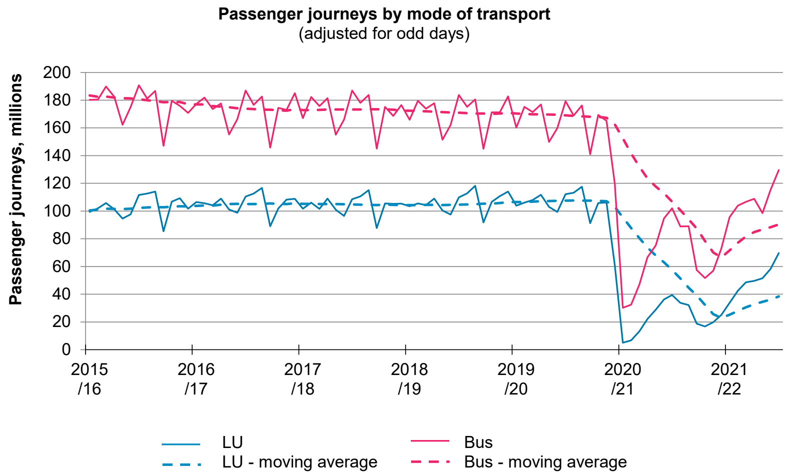
GLA Economics will continue to monitor these challenges over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport have increased going into Autumn

- 199.4 million passenger journeys were registered between 19 September 2021 and 16 October, 26.1 million journeys more than in the previous period (22 August – 18 September 2021).
- In the latest period, 69.7 million of all journeys were underground journeys and 129.7 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 124.4 in the previous period to 128.9 in the latest period.

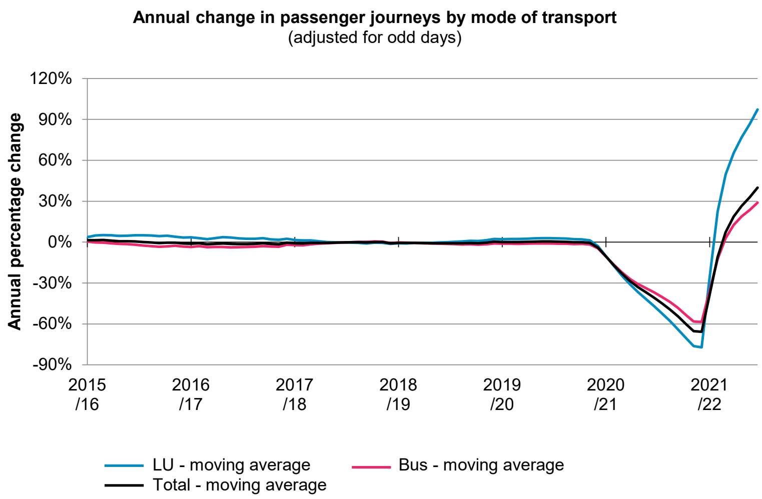
Source: Transport for London
Latest release: November 2021, Next release: December 2021



The dramatic fall in the moving average annual change in passenger journeys in London continues to be reversed

- The 13-period moving average annual growth rate in the total number of passenger journeys was 39.9% in the period 19 September to 16 October, up from 32.8% in the previous period, 22 August to 18 September.
- The moving average annual growth rate of bus journeys increased from 23.5% to 29% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 86.4% to 97.3% between those periods.

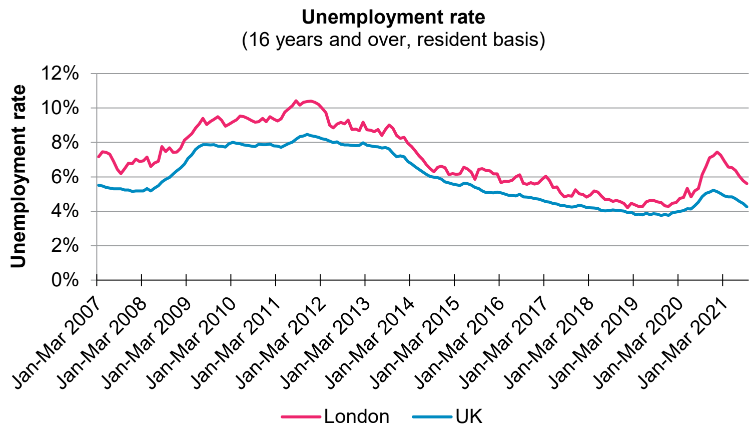
Source: Transport for London
Latest release: November 2021, Next release: December 2021



London's unemployment rate fell to 5.6% in the quarter to September 2021

- Around 275,000 residents 16 years and over were unemployed in London in July - September 2021.
- The unemployment rate in London was 5.6% in that period, down from 6.4% in the previous quarter, Apr – June 2021, which was one of the highest rates in seven years.
- The UK's unemployment rate also decreased, from 4.7% in Apr – June to 4.3% in July – September 2021.

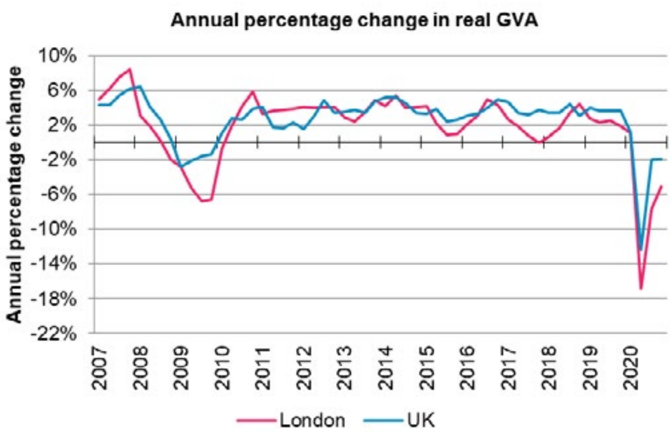
Source: ONS Labour Force Survey
Latest release: November 2021, Next release: December 2021



London's economy is estimated to have contracted by 5.1% in the year to Q4 2020

- London's real GVA grew by 3.1% in Q4 - compared with Q3 - after growth of 13.3% in the previous quarter. This has not been sufficient to offset the decline of 17.2% in the second quarter.
- London's real GVA in Q4 2020 remained 5.1% below its pre-crisis level in Q4 2019.
- The UK's real GVA quarterly growth rate for Q4 2020 was 0.5% after a fall of 13.1% in the second quarter and a recovery of 13.4% in the third quarter. Overall UK GVA in Q4 remained 1.9% below its pre-crisis level in Q4 2019.
- The update of this indicator has been delayed, as ONS has delayed publication of data for Q1 2021
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012 have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

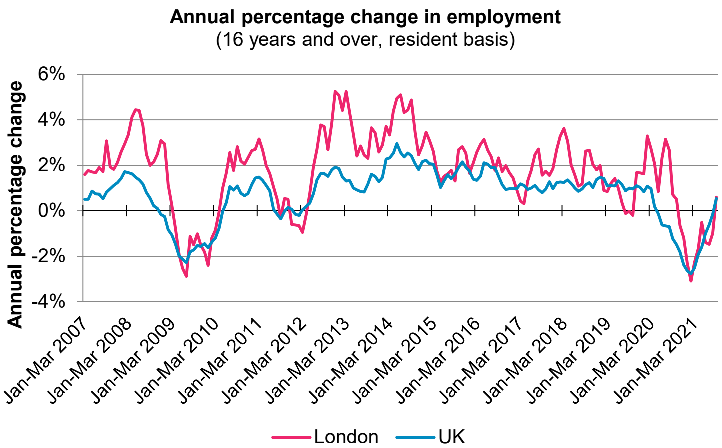
Source: ONS and GLA Economics calculations
Latest release: August 2021, Next release: December 2021



London's year-on-year employment growth rate was 0.6% higher in the quarter to September 2021

- Around 4.6 million London residents over 16 years old were in employment during the three-month period of July – September 2021.
- The rate of employment growth in the capital was 0.6% in the year to this quarter, compared with -1.4% in the previous quarter to June 2021.
- The change in the UK's employment annual growth rate was 0.5% in the most recent quarter, and -1.0% in the previous quarter.

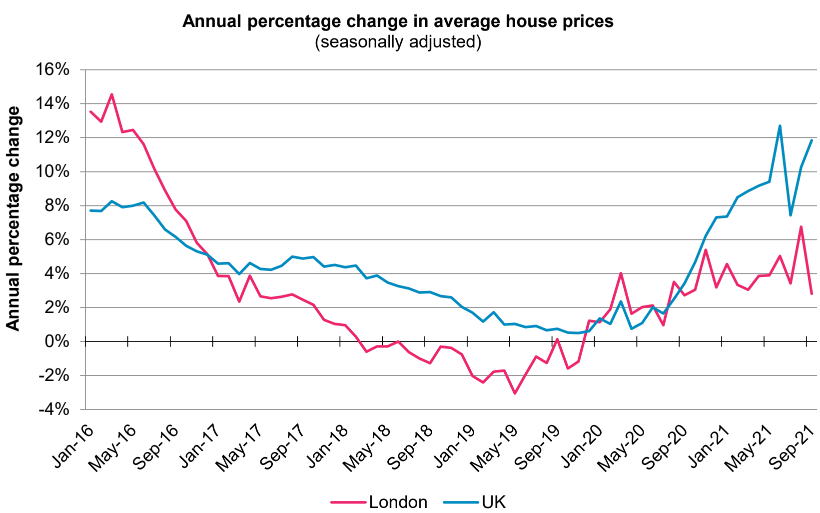
Source: ONS Labour Force Survey
Latest release: November 2021, Next release: December 2021



House prices growth in London calmed down slightly

- In August 2021, the average house price in London was £500,000 while for the UK it was £266,000.
- The annual growth rate in average house prices in the capital was 2.8% in September, slightly lower than in previous months.
- Average house prices in the UK rose by 11.8% in annual terms in September, more than the August rate of 10.8%.

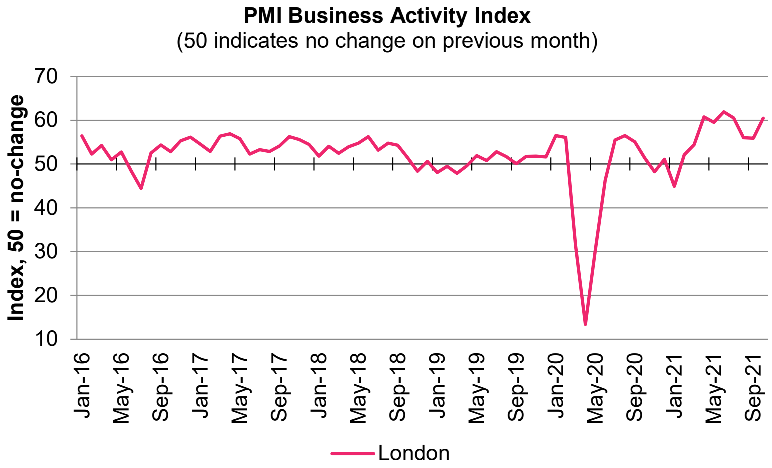
Source: Land Registry and ONS
Latest release: November 2021, Next release: December 2021



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

- The business activity PMI index for London private firms increased from 55.9 in September to 60.5 in October.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

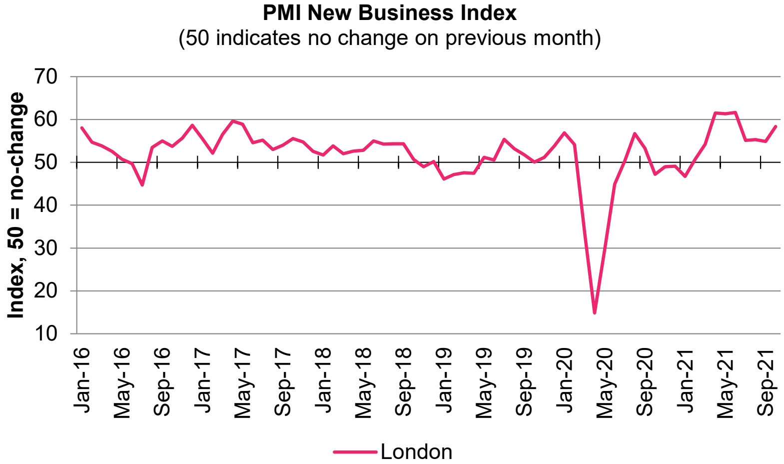
Source: IHS Markit for NatWest
Latest release: November 2021, Next release: December 2021



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

- The PMI new business index in London increased from 54.9 in September to 58.3 in October. The nine months from February onwards are the first time there has been positive sentiment since September 2020.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

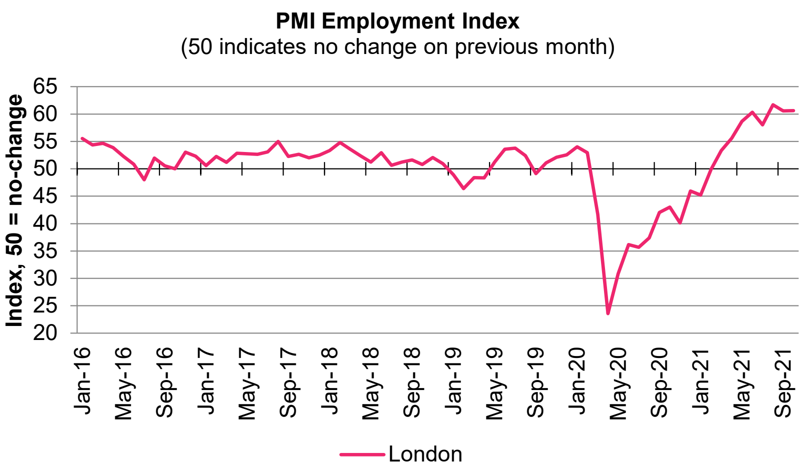
Source: IHS Markit for NatWest
Latest release: November 2021, Next release: December 2021



In October, the sentiment of the PMI employment index in London remained positive for the eighth consecutive month

- The Employment Index for London stayed the same at 60.6 in October as in September. Prior to March 2021, the last time sentiment was positive was in February 2020. The index is at near its highest level since records began in 1997.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

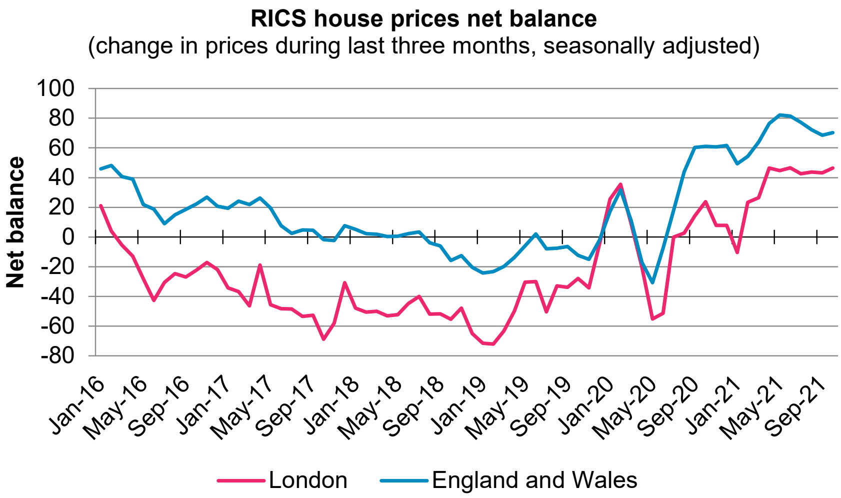
Source: IHS Markit for NatWest
Latest release: November 2021, Next release: December 2021



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

- In October, the net balance of property surveyors in London reporting a rise in house prices was 46, and in September 43.
- For England and Wales, the RICS house prices net balance index increased slightly in October to 70 from 69 in September.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

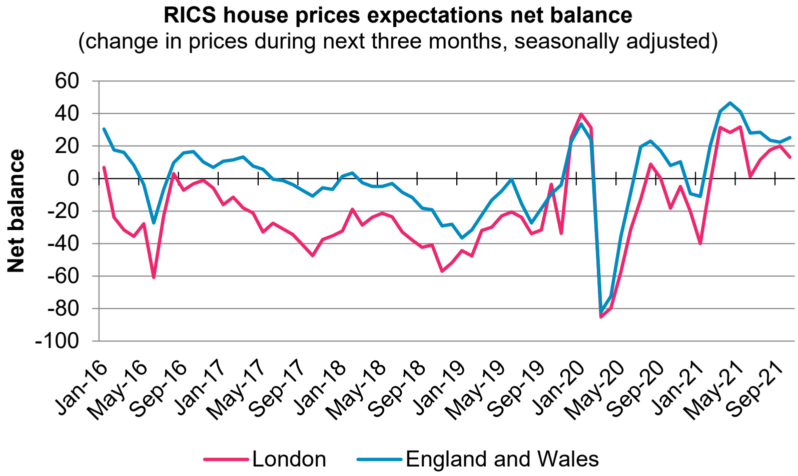
Source: Royal Institution of Chartered Surveyors
Latest release: November 2021, Next release: December 2021



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

- The net balance of house prices expectations in London was 13 in October, down on the figure 20 in September.
- Sentiment in England and Wales was 25 in October a slight increase from 22 in September.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

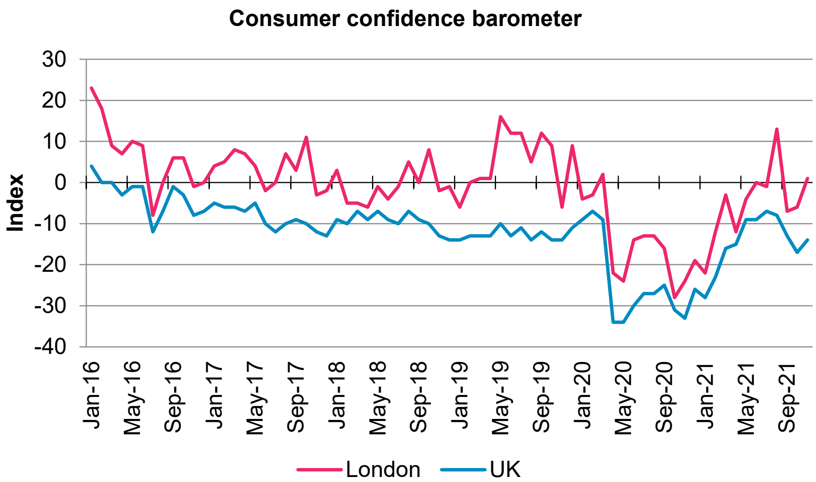
Source: Royal Institution of Chartered Surveyors
Latest release: November 2021, Next release: December 2021



Consumer confidence in London turned positive in November

- In November, the consumer confidence index in London increased to 1, from -6 in October.
- The sentiment for the UK increased from -17 in October -14 in November. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: November 2021, Next release: December 2021



The furlough scheme in London

Ammar Ljubijankic, Economist and **Christopher Rocks**, Economist

Introduction

The government's Coronavirus Job Retention Scheme (CJRS) – or furlough scheme – closed at the end of September 2021, having run in some form since March 2020. This note reviews the latest official statistics and third-party analyses to consider how the scheme has affected Londoners.

Use of furlough was relatively high in London, particularly towards the end of the scheme

A cumulative total of 11.7m jobs were supported by the CJRS across the UK at some point since inception. Overall, London accounted for around 1.6m or 17% of the jobs on furlough since the scheme was launched, despite comprising only 14% of payrolled employees.

At the UK level, the number of jobs on furlough peaked in May 2020 (regional data is only available from July 2020). After increasing again up to the third lockdown in January 2021, the number of furloughed jobs held by Londoners declined significantly towards the end of the scheme, especially as the economy reopened over the summer (Figure A1).

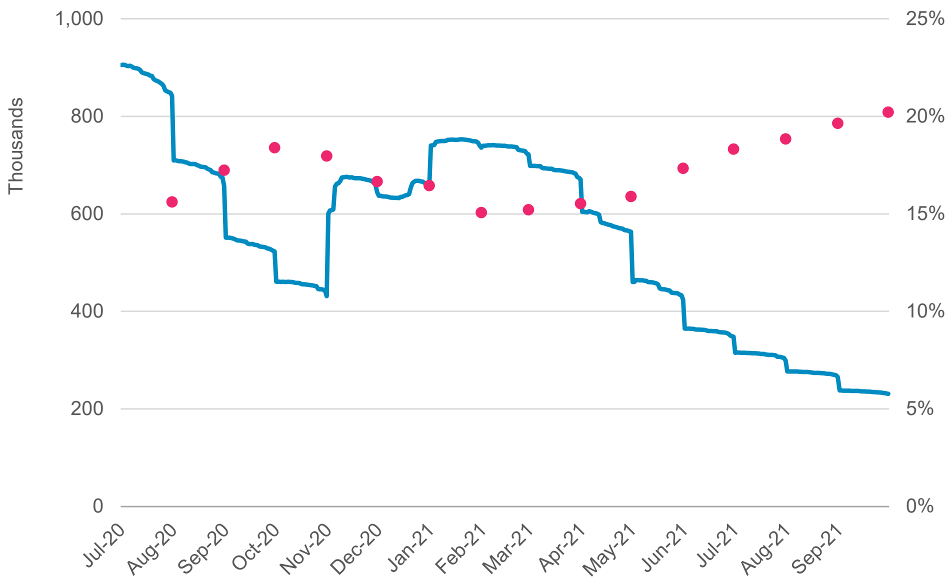


Figure A1: London employments on furlough, July 2020 to September 2021

Number of employments (000s, LHS) vs. share of UK total (%, RHS)

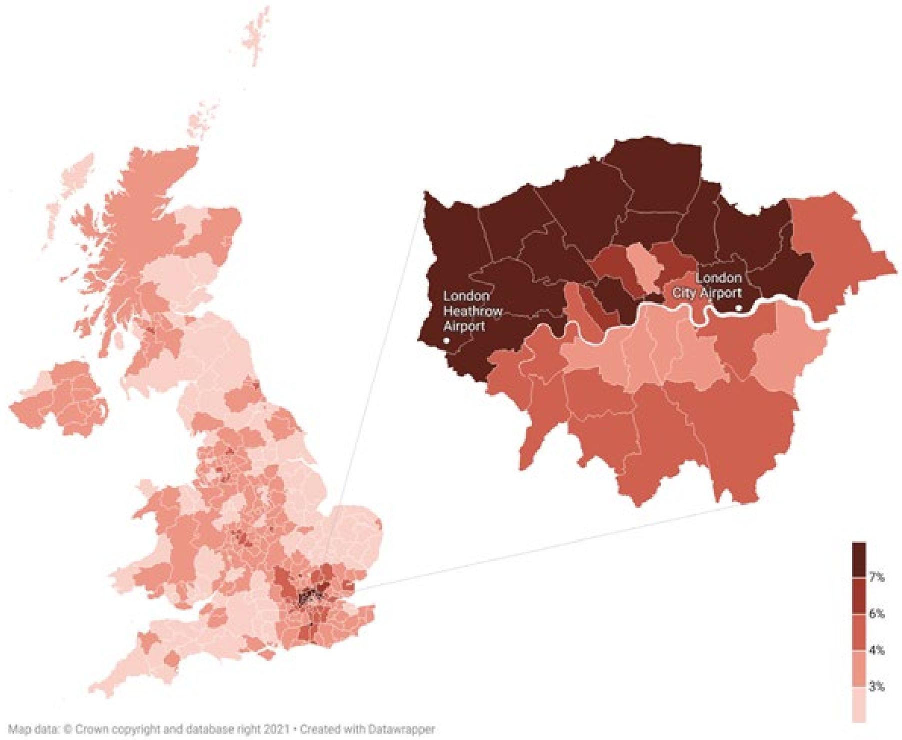
Source: GLA Economics calculations based on HMRC data. Notes: September 2021 data is provisional.

However, this decline was less pronounced than in other parts of the UK[1]. This meant that when the scheme closed there were still around 231,000 London staff on furlough – equal to 20% of the UK's furloughed jobs at the end of September 2021, up from 15% in January 2021.

Furlough take-up remained particularly high in certain local authorities in London at the end of the scheme, including those near airports

The proportion of jobs still on furlough at the end of the scheme varied across the UK. At 6% of eligible jobs, London had the highest take-up rate of any UK region or country. Furlough rates were otherwise in the range of 3% to 4%, with the UK average at 4%.

As Map A1 shows, there was significant variation between local authorities at the end of the scheme. But the highest take-up rates were mainly in London – of the 15 local authorities with take-up rates of 7% and above in September, 13 were in the capital[2].



Map A1: CJRS take-up rate by local authority, end of September 2021

Source: HMRC data on CJRS take-up in September 2021, released in November 2021.

As noted by HMRC, many of these local authorities are near airports. This includes Ealing (8% of eligible jobs on furlough at the end of the scheme), Hounslow (8%), and Hillingdon (7%) near Heathrow Airport, and Newham (8%) and Redbridge (8%) near London City Airport. The high furlough rates in these areas are likely to reflect (in part) the challenges facing travel and tourism-related industries, where activity is yet to return to normal[3].

Most other local authorities with high furlough rates were in north and north-west London. However, this data is based on employee place of residence and some of these jobs will be located in central areas. Hospitality and retail had the highest number of furloughed jobs in London at the scheme's end, which could also reflect the persistent increase in remote working among office-based workers and reduced levels of commuting.

1 The number of furloughed jobs in London fell by 34% between the end of June 2021 and the end of September 2021, against a UK average fall of 40%.

2 Outside of London, it also includes Crawley (7%) – near Gatwick Airport – and Slough (8%). Note that for 32,700 furloughed jobs, the location was unknown

3 Looking at UK-level data for detailed sub-sectors, Passenger air transport and Travel agencies continued to have the highest take-up rates in the UK at the end of September 2021.

There is uncertainty around the end of the scheme, but early indicators point to a muted impact on redundancies and unemployment

With a high number of jobs still being furloughed at the end of September, there is some uncertainty around the near-term outlook for London's labour market.

The Bank of England expects the unemployment rate to pick-up at the end of the year, but for the rise to be relatively small. With the UK unemployment rate now predicted to reach 4.5% in the fourth quarter of 2021, up from 4.3% in the third quarter, it assumes that most employees on furlough at the end of the scheme will return to work.

This assumption is consistent with information released by the Insolvency Service, which does not show a large increase in redundancy notifications recently. It is also in line with national-level survey findings. For example, a recent ONS survey of businesses estimated that 87% of furloughed employees returned to work following the end of the CJRS[4].

There are reasons to think that the impact could be worse in the capital. In addition to high overall furlough use and challenges related to international travel and tourism and changes in working patterns, it is worth noting that:

- London had a relatively high share of employments on full-furlough at the end of the scheme – 66%, compared with a UK-wide average of 56%;
- according to the IFS, Londoners have been more likely to be made redundant during the pandemic and less likely to find new work;
- Emsi online job postings increased by 19% in London between October 2019 and October 2021, compared with a 50% increase in the rest of England.

Despite these concerns, there was an increase of 30,600 payrolled employees living in London in October compared to September – the largest proportionate increase of any UK region or country and seventh consecutive month of growth. The number of Londoners claiming unemployment-related benefits also continued to fall on the previous month.

While many workers have lost their jobs during the pandemic – and these latest estimates may not fully reflect post-furlough redundancies[5] – early indicators suggests that the end of the furlough scheme is unlikely to have resulted in a large increase in redundancies or unemployment in the UK or London.

We will continue to monitor the impact over the coming months. Further information and analysis on this topic can also be found on our COVID-19 labour market analysis page.

4 The ONS estimated that: 3% of employees still furloughed at the scheme's end had been made permanently redundant; 6% had returned to work on increased hours; 65% returned to work on the same number of hours; 16% returned to work on reduced hours; 3% voluntarily left their role; and 8% were classified as 'other'. A seperate Resolution Foundation survey found that 88% of workers on furlough in September were in work in the first half of October.

5 According to the ONS: 'It is possible those made redundant at the end of the furlough scheme will be included in the RTI data for a few further months, while they work out their notice period.'

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

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