GLAECONOMICS

London's Economy Today

Issue 221 | January 2021

COVID-19 vaccine roll-out proceeds rapidly as UK goes into third lockdown

By **Mike Hope**, Economist

The UK gave its first COVID-19 vaccine jab on 8 December. And, so far, the UK has the third fastest vaccination program in the world, according to official figures collated by Our World in Data. By 26 January 10.7% of the UK population had received at least one dose of a vaccine.

In parallel, a nationwide acceleration in the number of confirmed COVID-19 cases, partially attributable to a new variant of the virus, has led to the imposition of a third national lockdown, on 5 January. This is due to last at least six weeks.

More positively, the economy seems to have become better at adjusting to periods of lockdown. The second lockdown in November led to a fall in the UK economy of 2.6% compared with October (Figure 1), according to the latest figures from the Office for National Statistics (ONS). In comparison, the fall between February and April 2020 was 24.8%, although the economy remains 8.6% below its level last February.

While the Manufacturing and Construction sectors grew in November there were declines in activity across the service sector. Four sectors made up four fifths of the total fall of 2.6% - Accommodation and food services contributed 0.9 percentage points of this total, Wholesale and retail 0.6 percentage points, Other services 0.4 percentage points, and Arts, entertainment and recreation 0.2 percentage points.

Also in this issue

Datastore

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

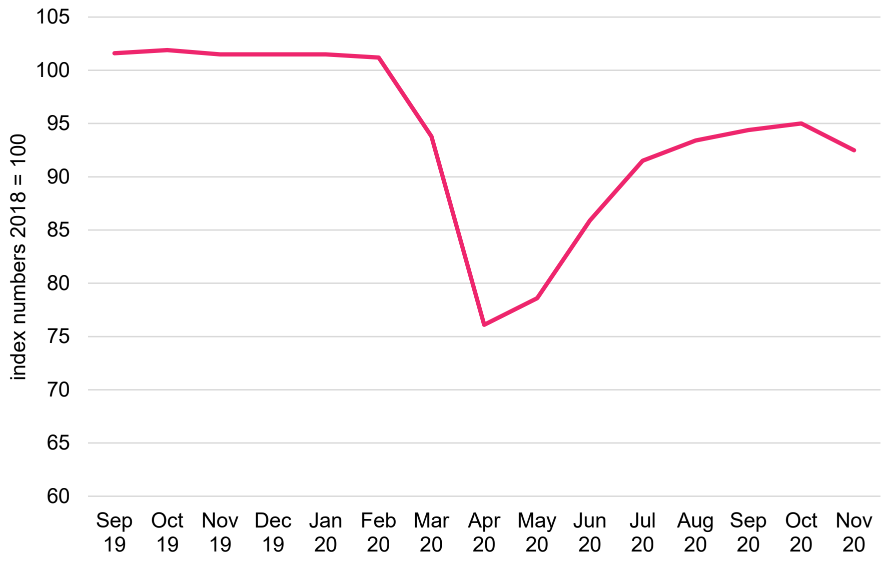


Figure 1: UK GDP, September 2019 – November 2020

Source: ONS monthly GDP

In response, the Chancellor of the Exchequer, Rishi Sunak, announced on 5 January the following:

- an additional £4.6bn in grants to support businesses and protect jobs
- One-off top up grants for retail, hospitality and leisure businesses worth up to £9,000 per property
- £594m discretionary fund to support other impacted businesses

London labour market continues to be particularly affected by COVID-19

Data from the latest ONS Labour Force Survey, and reported in the LET indicators section, show unemployment in London increasing faster than across the UK. The fall in the employment rate has been similar to national trends.

Data on the number of payroll employees comes from the HM Revenue and Customs Pay As You Earn (PAYE) Real Time Information system. On this measure the number of paid employees fell by 828,000 across the UK between February 2020 and December 2020. Around 229,000 of these employees were living in London – the single largest fall across the UK's nations and regions. For December 2020, the year-on-year fall in the number of employees in London was greater than that for the UK as a whole – down 5.5% versus 2.7% (Figure 2).

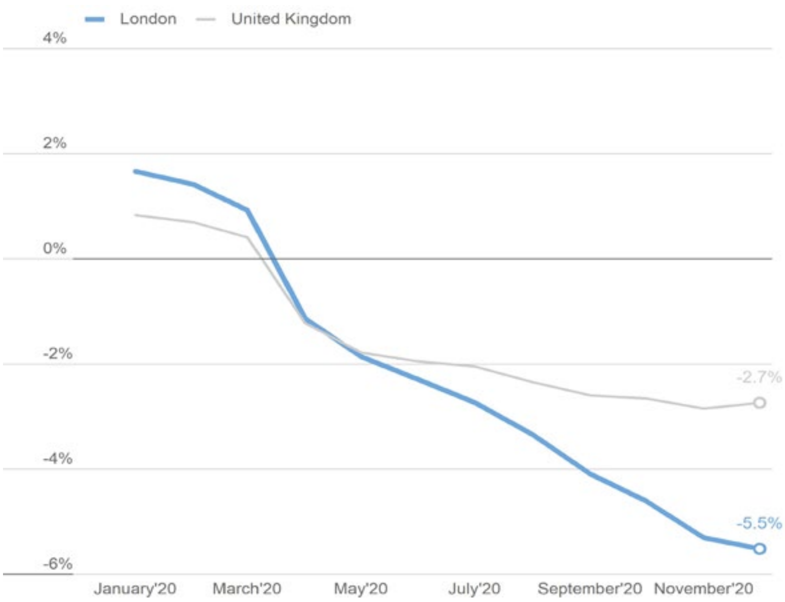


Figure 2: PAYE jobs estimate, change on previous year, January – December 2020

Source: HMRC PAYE Real Time Information system

UK air travel corridors have closed although flight numbers are low

With the emergence of more virulent strains of the COVID-19 virus in Brazil and South Africa travellers arriving in the UK now have to show proof of a negative COVID-19 test to be allowed entry. They will still have to quarantine, and the air travel corridors which allowed arrivals from some countries to avoid having to quarantine have now closed.

This is against a backdrop of a massive fall in passenger numbers to and from airports around London and the rest of the UK. As in other years there were fewer passengers in November 2020 than August 2020, but the decline compared with 2019 was higher for each of Heathrow, other London area airports, and elsewhere in the UK. The decline in passenger numbers was around 80% between August 2020 compared to August 2019, and had risen to 90% by November 2020 a year earlier (Table 1).

Table 1: Passengers at Heathrow, London area excluding Heathrow, and the rest of the UK airports, (millions) August and November 2020 and the previous year

	Heathrow	London area other than Heathrow	Outside London area
November 2020	0.75	0.38	0.61
November 2019	6.23	6.54	7.21
Year-on-year change	-88%	-94%	-91%
August 2020	1.42	2.69	2.70
August 2019	7.68	10.40	12.79
Year-on-year change	-82%	-74%	-79%

Source: Civil Airports Authority
Note: London area airports other than Heathrow are Gatwick, London City Airport, Luton, Southend, and Stansted

Eurostar has also faced a substantial drop in travel estimated to be at least 95% since March. The company has warned that it could run out of cash this Summer without government assistance.

UK and EU reach a Trade and Cooperation Agreement

On 24 December the UK and the EU announced a trade agreement which came into force on 1 January. The deal ensures that goods traded between the two entities will not face tariffs or quotas. Yet non-tariff barriers have been introduced, such as non-recognition of standards or qualifications, and free movement of labour has ended. Some early impacts are becoming apparent.

Trade in goods has ceased to be frictionless as exporters need to provide a customs declaration and guarantees over rules of origin. Fresh fish and seafood providers are one example of food exporters who have to provide health certificates. The delay this has caused to consignments has meant that some produce has become unfit for consumption en route, while some fishermen have diverted their catch to Denmark to avoid logistical problems.

Free trade in services to the Single Market has ended as the agreement did not cover services. Services covers over 90% of the London economy. London's service sector had a trade surplus with the EU of £21bn in 2017, while the UK across goods and services ran a deficit of £66bn with the EU (Figure 3). A trade agreement in goods is therefore more likely to be in the interests of the EU than either London or the rest of the UK.

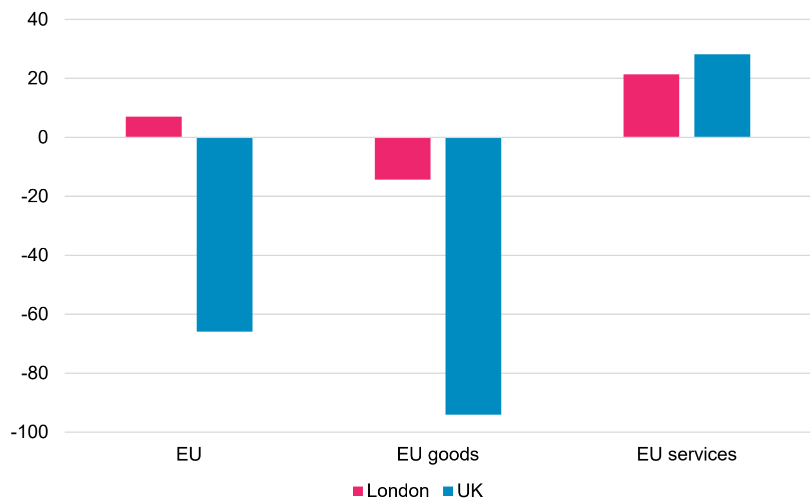


Figure 3: London and UK trade balances with the EU, £bn 2017

Source: ONS and HMRC

Note: For further details, the August 2020 [LET supplement](#) provided an update on London's trade.

For the Finance sector on the first trading day of 2021 nearly €6bn of EU share dealing shifted away from the City of London. Business on London hubs for euro-dominated share trading shifted to their new EU venues set up late last year to cater for the end of the Brexit transition. The volume amounted to a sixth of all business on exchanges in Europe on the first trading day. Previously up to 30% of all EU shares traded across the continent passed through the City.

Further, as the EU and the UK are now distinct jurisdictions EU regulators have withdrawn registration of six UK-based credit rating agencies and four trade repositories – data warehouses that provide authorities with information on derivatives and securities financing trades. EU companies and investors will have to use EU-based entities.

The full impacts of worse access terms to the EU market on re-structuring the economy are only likely to become apparent over the coming years.

President Joe Biden unveils $1.9tn economic relief package

Ex-President Donald Trump signed into law on 28 December a stimulus package for the economy worth about $2.3tn. There was $900bn for COVID-19 relief, which includes $600 for most Americans. The original version of the package had been discussed early in 2020.

The Biden package includes $415bn to bolster the response to the virus and the roll-out of COVID-19 vaccines, $1tn on direct relief to households which includes another $1,400 for most Americans, and roughly $440bn for small businesses and communities particularly hard hit by the pandemic. There are likely to be hurdles in passing the legislation through Congress.

The economic outlook for London remains bleak

The latest quarterly economic survey by the London Chamber of Commerce and Industry paints a disheartening picture of prospects for London's businesses. The survey, which coincided with the second lockdown, finds that three in five of surveyed firms expect London's economic prospects to worsen over the coming 12 months. This is better, though, than for the UK as a whole where only one in five firms expect an improvement over the next 12 months.

Although the headwinds of COVID-19 and Brexit are taking their toll, a range of economic indicators continued to improve from the second quarter. For example, compared with Q3 the net balance across firms of expectations for profitability rose from -25% to -16%. Despite this 40% of firms still anticipate a decline in profitability over the coming year, and 49% of firms reported a decline in cashflow over the previous three months.

It is not just businesses which are facing challenging circumstances. In mid-January, 39% of Londoners had seen a negative impact on their finances from COVID-19, down 3 percentage points from mid-December, according to a YouGov survey for the GLA. This consists of 27% of Londoners who are coping, and 12% who are seriously struggling.

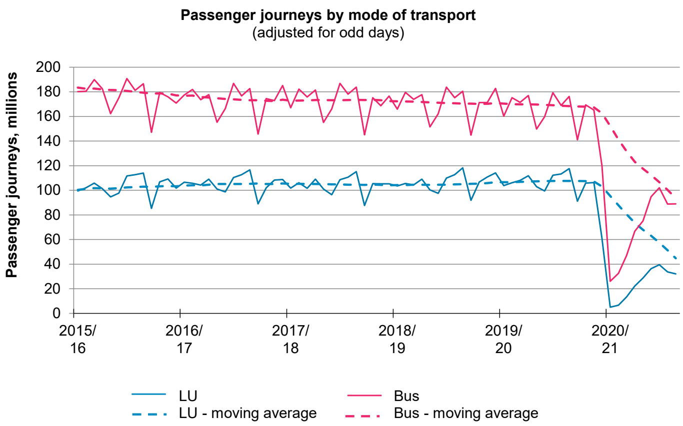
GLA Economics will continue to monitor and report on London's challenges in our publications which can be found on our publications page.

Economic indicators

The gradual recovery seen in passenger journeys in London public transport over the last months has reversed with the second lockdown

- 121.1 million passenger journeys were registered between 15 November and 12 December 2020, 1.6 million journeys less than in the previous period (18 October – 14 November). This contraction represents the second fall since the first national lockdown in the Spring and is essentially due to the second lockdown in the capital between 5 November and 2 December.
- In the latest period, 32.1 million of all journeys were underground journeys and 88.9 million were bus journeys.
- The 13-period moving average in the total number of passenger journeys fell further from 151.7 in the latest period to 138.4 in the previous period.

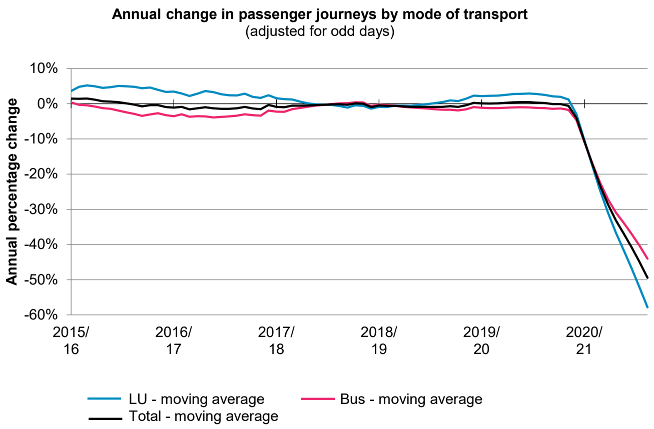
Source: Transport for London
Latest release: January 2021, Next release: February 2021



The moving average annual change in passenger journeys in London continues its fall

- The 13-period moving average annual growth rate in the total number of passenger journeys was -49.5% in the period 15 November to 12 December, further down from -45.1% in the period 18 October – 14 November and reaching a new historic low.
- The moving average annual growth rate of bus journeys went from -40.4% to -44.0% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went down from -52.3% to -57.9% between those periods.

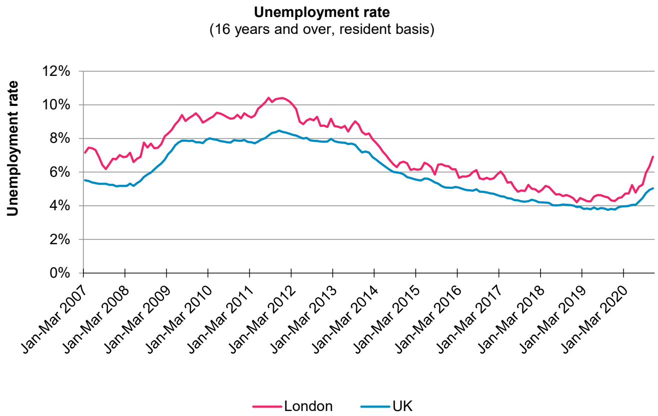
Source: Transport for London
Latest release: January 2021, Next release: February 2021



London's unemployment rate rose to 6.9% in the period September – November 2020, the highest rate in six years

- Around 355,000 residents aged 16 years and over were unemployed in London in the period September to November 2020. The unemployment rate in London was 6.9% in that period, notably up from 5.3% in the previous period June to August 2020 and representing the highest rate in six years.
- The UK's unemployment rate also increased, if by less than in London, from 4.5% in June - August to 5.0% in September – November.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

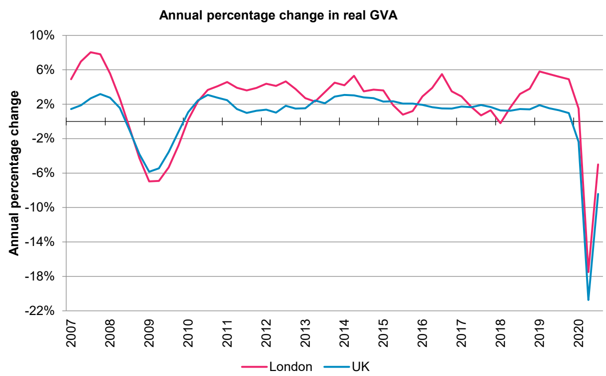
Source: ONS Labour Force Survey
Latest release: January 2021, Next release: February 2021



London's economy is estimated to have grown by 15.2% in the third quarter of this year compared to the previous quarter, following a historic contraction of 21.1% in the first half of the year due to the COVID-19 pandemic

- London's real GVA grew by 15.2% in Q3 - compared with Q2 - after two quarters registering negative quarterly rates. In annual terms, the economy declined by -8% in Q3 after a historic annual fall of -19.0% in the second quarter of the year. These rates are GLA Economics estimates.
- London's real GVA in Q3 2020 remained 8.7% below its pre-crisis level in Q4 2019.
- The UK's real GVA annual growth rate for Q3 2020 was -9.7% after an annual fall by -21.5% and -2.2% in the second and first quarters of the year, respectively.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the two most recent quarters 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.

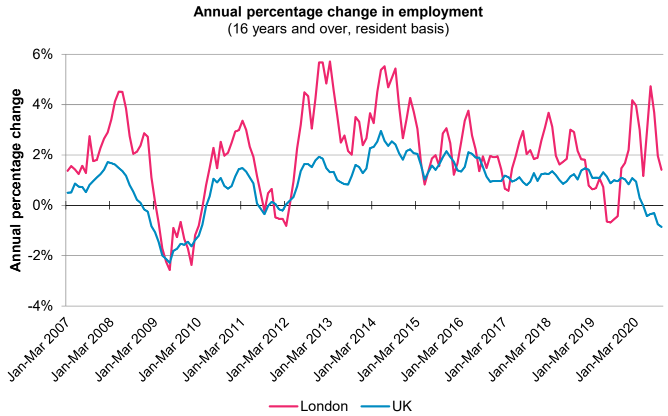
Source: ONS and GLA Economics calculations
Latest release: November 2020, Next release: February 2021



London's annual employment growth rate was 0.6% in the period September to November 2020, down from 3.7% in June to August

- Around 4.78 million London residents over 16 years old were in employment during the three-month period September – November 2020.
- The rate of employment growth in the capital was 0.6% in the year for the mentioned period, 3.1 percentage points down from June - August 2020.
- In the same direction, the UK's employment annual growth rate continued its fall from -0.3% in June to August to -1.2% in September to November, the lowest rate since the first quarter of 2010.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

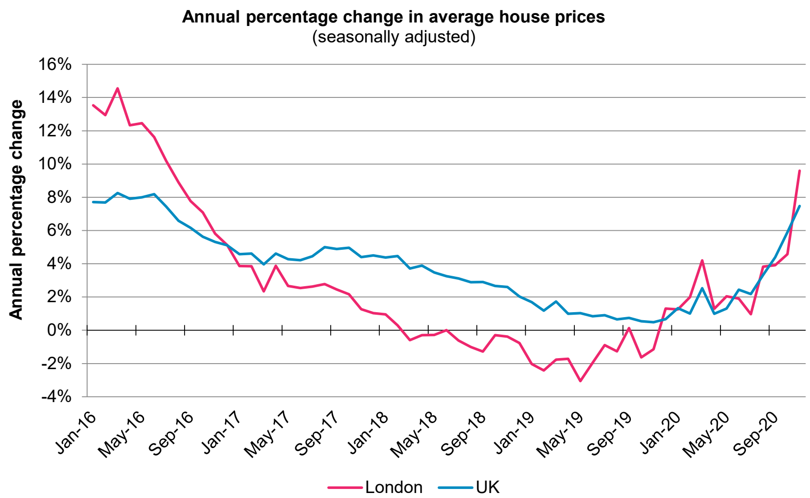
Source: ONS Labour Force Survey
Latest release: January 2021, Next release: February 2021



London house prices increased by 9.6% in annual terms in November

- In November 2020, the average house price in London was £515,553 while for the UK it was £246,633.
- The annual growth rate in average house prices in the capital was 9.6% in November, somewhat faster than in October (4.6%). This is the highest rate in four years, and the stamp duty holiday may be a contributory factor.
- Average house prices in the UK rose by 7.5% in annual terms in October, 1.6 percentage points above the same rate in October. This is also the highest rate in four years.

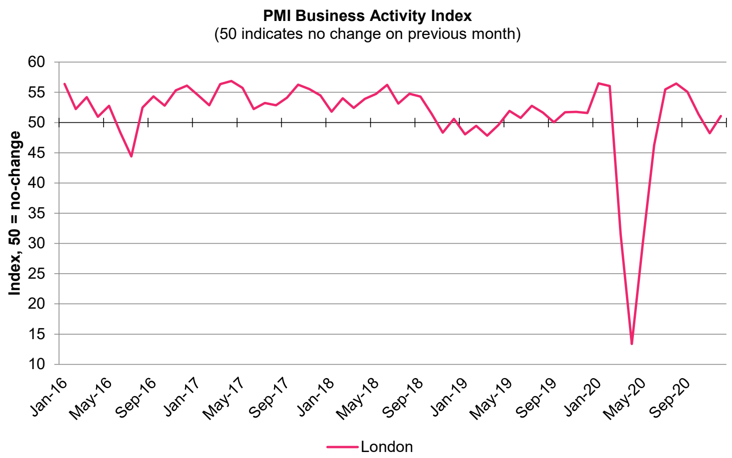
Source: Land Registry and ONS
Latest release: January 2021, Next release: February 2021



In December, London's PMI business activity index rose to record positive sentiment

- The business activity PMI index for London private firms increased from 48.2 in November to 51.1 in December, although it is still below the level of sentiment earlier in the year
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

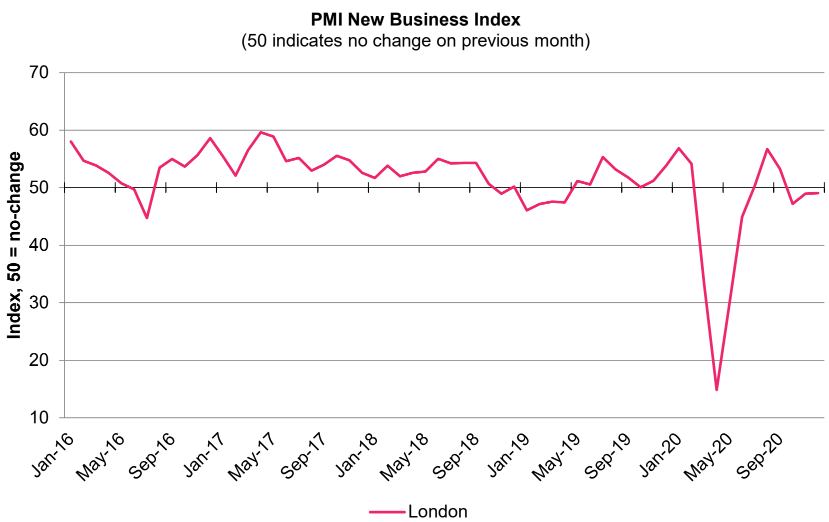
Source: IHS Markit for NatWest
Latest release: January 2021, Next release: February 2021



PMI new business index increased but sentiment remained negative in December

- The PMI new business index in London went up in December to 49.1 from 49.0 in November.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

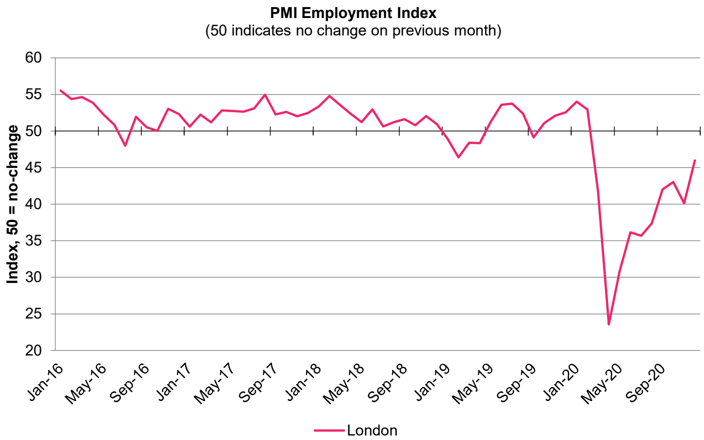
Source: IHS Markit for NatWest
Latest release: January 2021, Next release: February 2021



In November, the PMI employment index in London remained weak

- The Employment Index for London rose from 40.1 in November to 46.0 in December, still below the neutral figure of 50.0. Since March, the majority of firms have been reporting a worsening of employment prospects.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

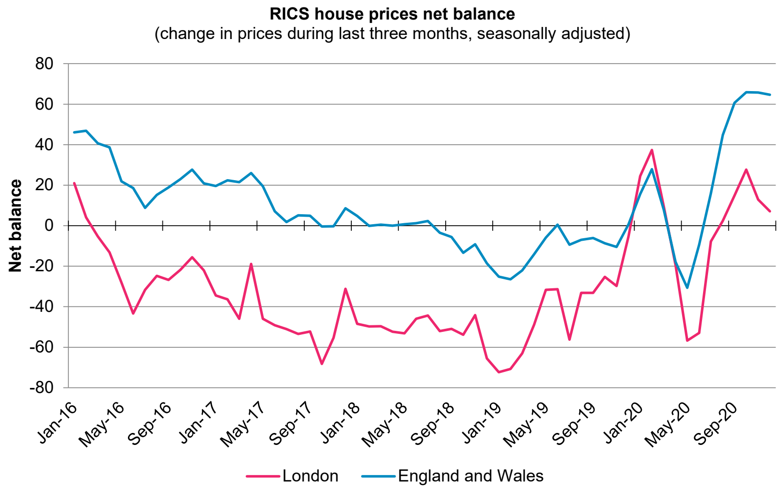
Source: IHS Markit for NatWest
Latest release: January 2021, Next release: February 2021



The net balance of property surveyors reporting a rise in house prices in London fell again in December

- In the three months to December, the net balance of property surveyors reporting a rise in house prices was 7, down from 13 in November.
- However, for England and Wales, the RICS house prices net balance index remained broadly unchanged in December at 65 (November was 66).
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

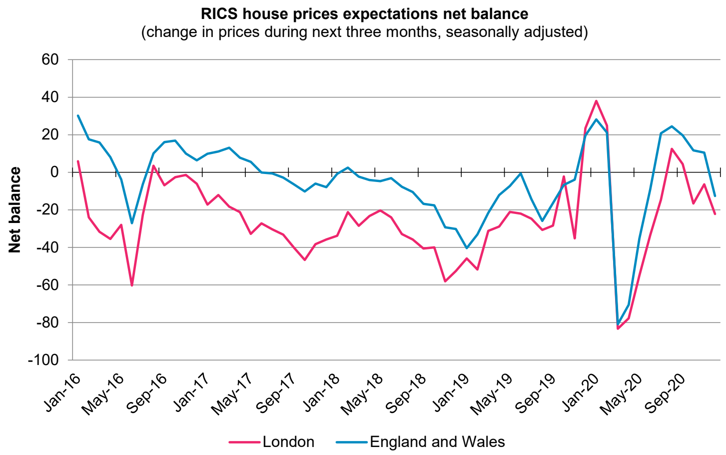
Source: Royal Institution of Chartered Surveyors
Latest release: January 2021, Next release: February 2021



In December, surveyors reported negative and deteriorating expectations for house prices in London over the next three months

- The net balance of house price expectations was -22 in December in London lower than the figure for November of -6.
- Sentiment in England and Wales also fell to -13 in December from 10 in November.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

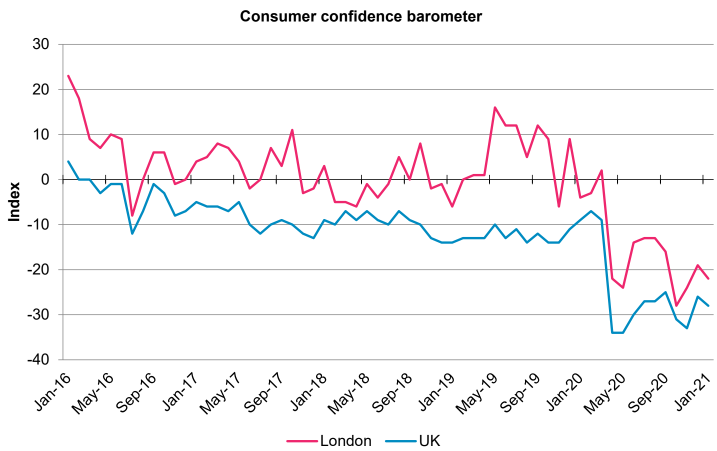
Source: Royal Institution of Chartered Surveyors
Latest release: January 2021, Next release: February 2021



Consumer confidence in London remained very negative in December

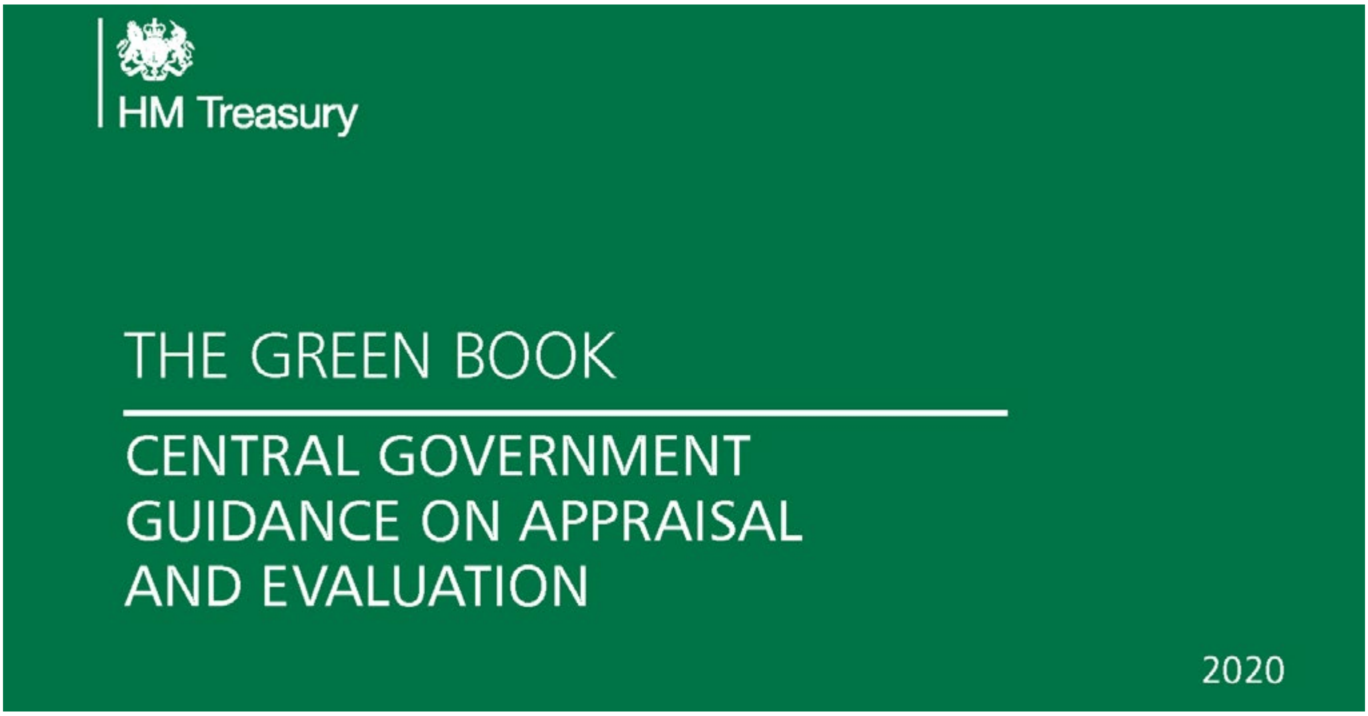
- In January, the consumer confidence index in London fell to -22, where it was at the beginning of the COVID-19 crisis. It was -19 in December.
- The sentiment for the UK also fell slightly from -26 in December to -28 in January. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment. Note that the historic index up to end 2020 was collected on behalf of the European Commission.

Source: GfK
Latest release: January 2021, Next release: February 2021



HM Treasury Green Book Review 2020

By **Chloe Cook**, Economist



Context

Alongside the publication of the Spending Review in December 2020, HM Treasury (HMT) also published an updated Green Book – its guidance for appraising and evaluating projects in central government. The refresh was informed by a review undertaken earlier in the year, carried out in part as a response to concerns voiced by some that the guidance disadvantages less productive parts of the UK undermining efforts to 'level up' in these areas.

The main criticism of the Green Book (made in various academic articles, consultancy reports and by some think tanks[1]) was that since appraisals focus on market prices to value wider benefits such as agglomeration and land value uplift, areas that are already the densest, with the highest land values and the most productive jobs, will tend to generate higher Benefit Cost Ratios (BCRs). This, it is argued, causes the 'Matthew effect' of accumulated advantage (named after a passage in the gospel of Matthew) whereby the appraisal process supports further investment in places that are already productive and relatively better off. A further criticism voiced was that because the Green Book is rooted in marginal analysis the methodology is poor at accounting for transformational change that could improve economic fundamentals in an area.

Alongside the consideration of these issues, the review looked at the wider culture surrounding appraisal, how results are presented and the process around investment decisions, both in the consideration of individual business cases and in the Spending Review.

1 See for example: Coyle, C. and Sensier, M (2018) 'The Imperial Treasury: appraisal methodology and regional economic performance in the UK', Metrodynamics (2020) 'Levelling Up: Making Investment Appraisal Fit for Purpose' and Onward (2020) 'Levelling Up: Rebalancing growth-enhancing spending'.

Summary of findings

HMT acknowledged some of the weaknesses of the Green Book and how it is deployed but the core methodology was not by itself found to skew outcomes[2]. Instead, the review concluded that that the strategic case is often weakly articulated and evidenced, leading to poor decisions at the longlist options appraisal stage. Without fully understanding how options contribute to government's strategic goals such as levelling up, the selection of an option becomes overly reliant on the BCR. This disadvantages places where projects have the potential to deliver transformational change, as this potential will often not be coherently thought through and set out. More generally, the review found a lack of consistency in how appraisals assess place-based impacts and distributional impacts.

While the BCR is a useful metric, HMT concluded there is a tendency to place an undue emphasis on it. Effort is often spent trying to 'boost' the BCR, that would have been better spent developing other elements of the business case such as its strategic coherence, risk management and the implications of significant unquantifiable factors. Costs or benefits for which there is good evidence, but are hard to monetise, are at risk of being ignored. The approval process becomes a discussion about whether the scheme should be funded or not, rather than a constructive conversation about how to meet policy objectives in a way that offers the best value for money.

There were also concerns raised about the wider decision-making system and culture, such as a lack of transparency around how business cases are approved, a lack of technical capacity to fully engage with the appraisal process and under-investment in rigorous ex-post evaluation.

Changes made to the Green Book

Taking on board the conclusions from the review, the following key changes were made to the Green Book appraisal guidance:

- **A stronger emphasis on the strategic case**. There is a stronger requirement for business cases to include a clear set of objectives and a logic chain. The strategic objectives are those determined by Government (e.g. in Spending Reviews) but can also refer to local strategies and plans.
- **A 'golden thread' approach to setting objectives**. This requires a clear understanding of the specific contribution of the intervention to the delivery of relevant strategic outcomes. Whether the intervention is a programme within a portfolio, or a project within a programme, its objectives need to be SMART (that is Specific, Measurable, Attainable, Relevant, and Timebound), and understood in terms of the contribution to the wider group of interventions of which it is part.
- **A new annex on the appraisal of transformational changes**. This provides guidance on how to set out a robust and well evidenced logic chain for transformational change for inclusion in the strategic case.
- **Improved place-based analysis**. Where an intervention's objectives have a geographically defined focus, this should be the principal frame of reference for the analysis, with UK-level analysis presented separately. Even where the impact on a specific place is not the explicit objective, there is a new requirement to consider the potential for differential place-based impacts or why this is not appropriate. Where appropriate, new local employment multipliers can be applied to direct job creation in tradable sectors and in the public sector.
- **Improved analysis of differential impacts**. There are strengthened references to the importance of distributional analysis (where relevant and possible) and requirements to take equalities impacts into account. Distributional analysis and other resources such as the Department for Transport's rebalancing toolkit have been available for some time but are rarely deployed, so additional guidance in the Green Book on this aspect is welcomed.

2 See also the empirical analysis by Gonzalez-Pampillon, N. and Overman, H.G (2020) 'Regional Differences in UK Transport BCRs: An Empirical Assessment'.

- **Changes to the discount rate for health, life or intergenerational impacts**. Where there are health or life impacts, a lower discount rate of 1.5% can be applied, reflecting the principles that the value society places on health does not decrease over time as society grows richer.

There are also changes to strengthen the decision-making processes and culture, such as emphasising strategic aims in Spending Reviews, building the capability of Green Book users through new bespoke training, a greater emphasis on the importance of evaluation, and a new requirement to publish a summary business case within four months of receiving final approval.

Implications for London

One of the intended aims of the new guidance is to support areas in need of 'levelling up' to improve the way they articulate the case for investment. The Green Book is flexible on the geographic level at which 'placed-based analysis' can occur when sub-national level analysis is required.

As GLA Economics analysis has highlighted (including as part of last year's Evidence Base for London's Local Industrial Strategy) 'levelling up' is a need that also applies to areas of London. Many parts of our diverse capital suffer from high rates of poverty and deprivation and need investment. The revised guidance should help to improve the appraisal of policies and projects that target these parts of the capital in the same way it should in other parts of the country.

In its work on appraising policies and projects, GLA Economics will continue to follow best practice and deploy the best available evidence, in line with the Green Book and other government guidance. In this context GLA Economics will also be observing how the new Green Book guidance is applied in practice within the public sector. As highlighted by Henry Overman of the London School of Economics and the What Works Centre on Local Economic Growth[3], it will be key to ensure that strategic cases for levelling up interventions and the evidence that is used to support them are robust and subject to sufficient scrutiny.

3 See blog article: Overman, H. (2020) 'Transport infrastructure expenditure: while there is no strong evidence of significant regional differences, the data available is problematic'

Our latest publications

We publish regularly on the state of London's economy, providing the latest economic data for London and interpret how this may affect policy. This includes analysis of recent developments in London's economy and forecasts for the next couple of years.

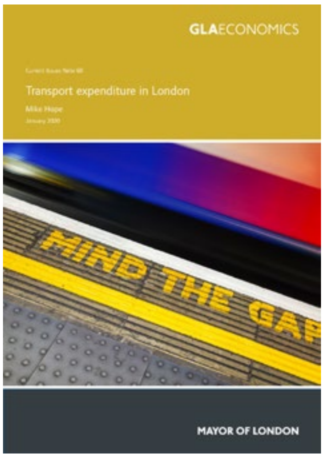
We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

We analyse recent developments in London's labour market, by sector and borough.

View all the GLA Economics publications on our website.

The Evidence Base for London's Local Industrial Strategy - Final report
This is the final report on the evidence base that is informing and supporting the development of London's Local Industrial Strategy, following on from the interim report published in August 2019. It presents clear, robust and comprehensive evidence on London's economy with a view to supporting the overall objective of achieving inclusive growth in London. It reports on London's strengths, key constraints, issues and risks for the five foundations of productivity introduced by the Industrial Strategy White Paper (Business Environment, People, Infrastructure, Ideas and Place), while also highlighting the linkages between the economy of London and the rest of the UK.

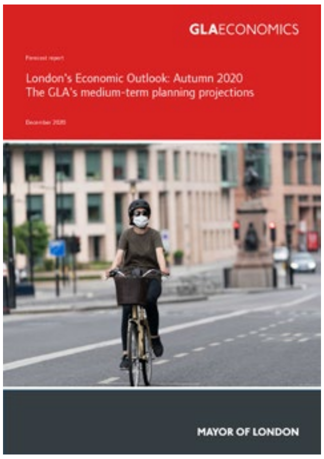
Download the full publication.



Transport expenditure in London
This current issues note looks at the case for continuing transport expenditure in London.

London spills over its administrative boundaries, and there are 2 million more people in it every day than its 8.8 million residents. The city relies on public transport, and so public investment – 58% of all journeys on public transport in Britain are at least in part in London. People make far more use of public transport than elsewhere in the country, and increasingly so.

Download the full publication.



London's Economic Outlook: Autumn 2020
GLA Economics' 37th London forecast isuggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be -9.5% this year due to the present COVID-19 crisis. This growth rate is expected to rebound to 6.2% in 2021 and 6.9% in 2022.

Download the full publication.

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