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Coronavirus takes hold in the UK, and grows fastest in London

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Over the course of the last month the coronavirus (COVID-19) has taken hold in the UK. The number of confirmed cases in London has more than quadrupled from 621 on 17 March to 2872 on 24 March. As this situation has evolved the Prime Minister has announced a number of increasingly stringent measures to maintain "social distancing". The Chancellor has also made three big policy statements which began with a package focused on sectors and businesses most directly affected before announcing a comprehensive package of social insurance across all businesses and workers. It is reported that additional measures for the self-employed will be announced today. The Bank of England has intervened twice to reduce the cost of borrowing and improve liquidity. This editorial explores what has been happening and why, and what it means so far for London. The final section reports on the Budget.

Also in this issue

Datastore

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

Spread in the UK is following the pattern of other countries

London is the hotspot for cases in the UK, accounting for 44% of confirmed cases.

Cases of COVID-19 are being reported across the globe. Once the infection has become established in a country its growth has been exponential in the first phase (Figure 1). While China accounted for almost all cases in January, the growth in numbers there has been slowing since February. In South Korea the growth in cases has also slowed, although this has not been the experience of Italy so far. It is too early to say how the number of cases will develop in the UK. (Please note that numbers for the world are on the left-hand axis, and for individual countries on the right-hand axis.)

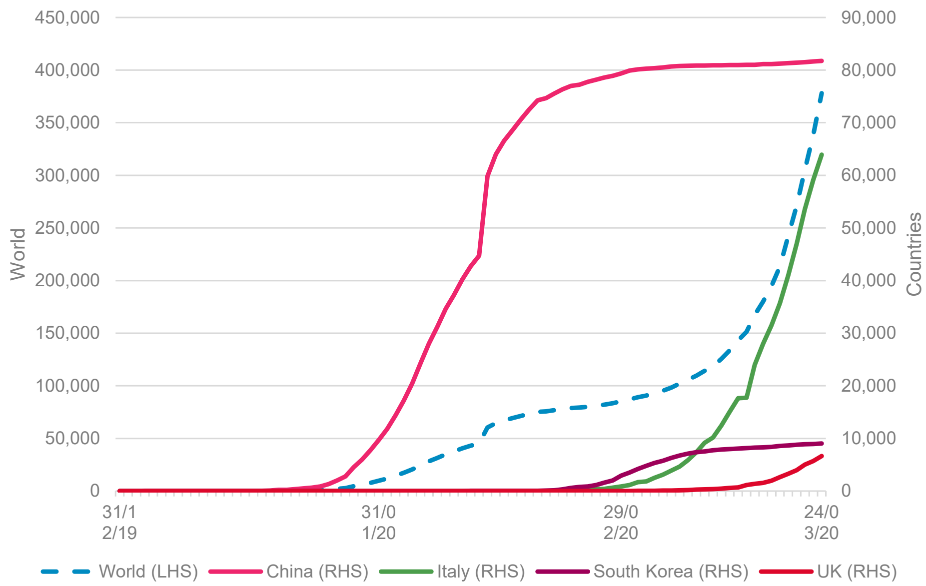


Figure 1: Number of confirmed COVID-19 cases in the world, China, Italy, South Korea, and the UK, day by day in 2020 to 24 March

Source: European Centre for Disease Prevention and Control and GLA Economics calculations

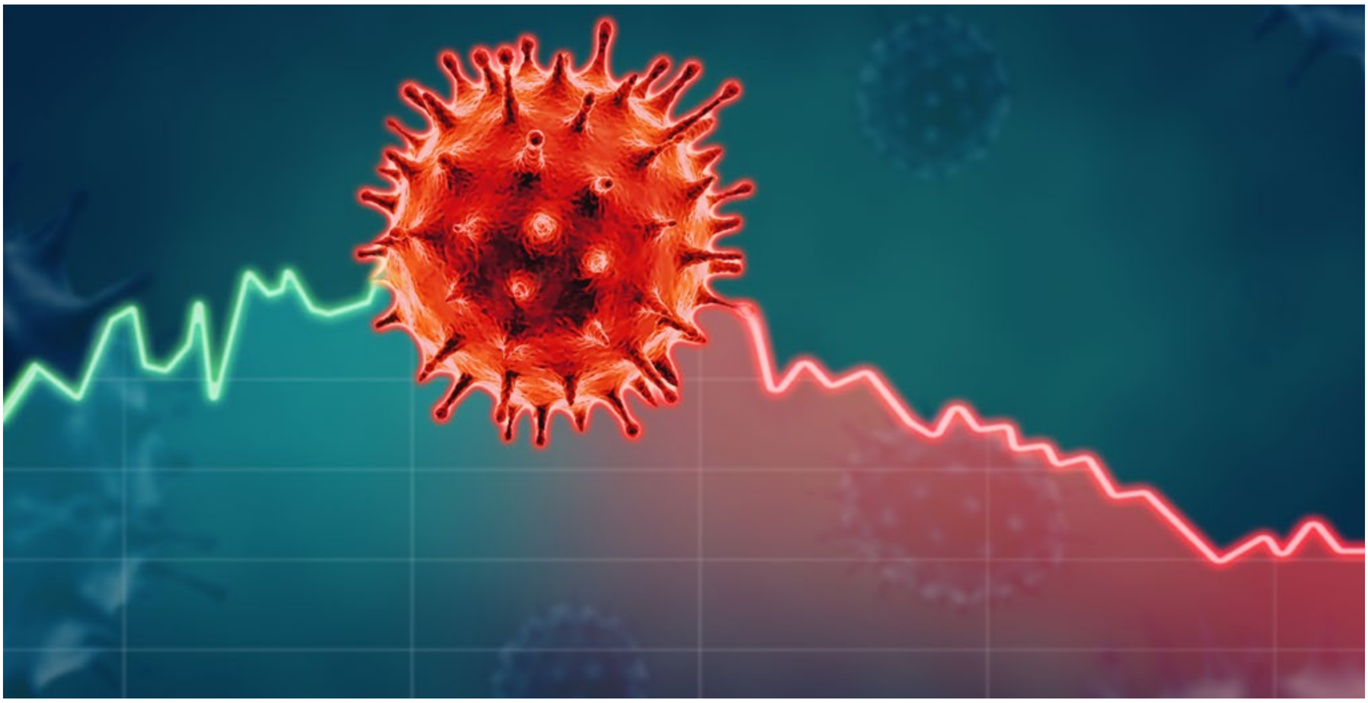
This pattern of infection contrasts with the experience of the SARS virus in 2002 and 2003. Although they are both coronaviruses, in the case of SARS each person who caught the virus passed it on average to less than one person, and so ultimately the virus died out. On average each person who contracts COVID-19 passes it to two or more people, which is why without effective intervention it grows exponentially. The Government has stated that it might eventually reach 80% of the population.

Another feature of the virus is that an individual can be infectious without being aware of it, which makes containment challenging. By 12 March the Government believed that 50-55,000 people had the condition, even though the number of confirmed cases then was less than 500.

China and South Korea have been effective in implementing "social distancing" measures for their populations. The benefit of these measures is that they spread and reduce the peak of the infection, and so manage the pressure on health services at any one time. This meets the UK Government objective to minimise the number of deaths. While this kind of strategy is widely seen as the one that can best tackle the health consequences of the pandemic it is bound to have major adverse implications for the economy in the short to medium-term, as the next sections discuss.

The UK Government has escalated its measures to address the making of unnecessary journeys, and participating in social or group activities, to closing schools, pubs, clubs, restaurants, gyms and leisure centres. It is now policy that people stay at home beyond a small range of very limited circumstances.

Economic effects of COVID-19



The latest indicators for London's economy, which are for January and February, showed improvements in business confidence, the labour market, the housing market, and consumer confidence which has been in part put down to the clear outcome of the general election. As more data becomes available this is unlikely to continue in the coming months.

Initially, based on the experience of the SARS virus the expectation was that the economic effects of COVID-19 would largely be concentrated in China, with some transmission through supply chains to other parts of Asia and Europe. This was the view of the Office for Budget Responsibility (OBR) when it closed its Budget forecast for new data on 14 February. It lowered its forecasts for the growth of world trade and UK export markets by 0.5 and 0.2 percentage points respectively. This was expected to knock 0.1 percentage points off UK GDP growth this year, which they were forecasting at 1.1%.

The Organisation for Economic Cooperation and Development (OECD) in its Economic Outlook published this month took a similar view. It estimated that global growth could be lowered by around ½ percentage point this year relative to that expected in the November 2019 Economic Outlook. Accordingly, annual global GDP growth was projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020.

S&P Global and Goldman Sachs are forecasting that the Eurozone will enter recession in the first half of this year before a recovery begins later in the year. The European Commission (EC) has revised its forecast for EU growth for 2020 to -1% from 1.4%, with a less than complete rebound in 2021. This assumes that morbidity and mortality rates are similar across states, and to what has been observed elsewhere. It estimated that the effects would be more detrimental in Europe than China because the economy is more integrated. As a result, restrictions and limitations on the movement of people, goods, and services would be more damaging.

If there were a shock of the size the EC is estimating for the EU the UK would almost certainly enter recession. Furthermore, some of the indicators later in this section are consistent with an even larger economic shock. As developments over the last two weeks have been very rapid it may well be that some of these indicators have further to adjust as the implications of the spread of the virus become better understood.

As the month has progressed forecasts for the UK economy have worsened:

- 11 March: the National Institute of Economic and Social Research (NIESR) cut its UK GDP forecast from 1.2% to 0.5% because of the COVID-19 crisis.
- 17 March: the British Chambers of Commerce downgraded its UK GDP growth expectations for 2020 to 0.8%, from a previous forecast of 1.0%.
- 20 March: Capital Economics forecasts a 15% drop in UK GDP in the second quarter of 2020. This is a level unprecedented in modern history – GDP fell by 6% in the financial crisis and 8% in the Great Depression. Overall, they forecast a GDP reduction of 7% in 2020. Only earlier in March, Capital Economics, had estimated that output in Britain could shrink by 2.5% in the second quarter, with 5% as an upper boundary.
- 20 March: It was reported that Oxford Economics now expects the UK to fall into a deep recession in the first half of 2020, with GDP shrinking by 1.4% in 2020 as a whole (the economy grew by 1.4% in 2019). Their downside scenario, involving a further worsening of the outbreak and financial stress, would see GDP falling by 2.5% this year. According to the same forecasters "The subsequent rebound in activity should be strong, as the resumption of discretionary spending is supported by low oil prices and monetary and fiscal stimulus. We now expect GDP growth of 3.7% in 2021."

On 23 March, the International Monetary Fund (IMF) provided an overview: "[…] the outlook for global growth: for 2020 it is negative—a recession at least as bad as during the global financial crisis or worse. But we expect recovery in 2021. To get there, it is paramount to prioritize containment and strengthen health systems—everywhere. The economic impact is and will be severe, but the faster the virus stops, the quicker and stronger the recovery will be."

Emerging data on what is happening at present is not positive. The latest IHS Markit flash Purchasing Managers' Indicators report that business confidence has declined to an all-time low (in over 20 years of data collection) in both the UK and the Eurozone, and is consistent with a sharp decline in economic activity. The UK indicator declined from 53.0 to 37.1 between February and March, while for the Eurozone the fall was from 51.4 to 31.4.

As a guide figures released by the National Bureau of Statistics in China for January and February provide an indication of the harm to its economy compared with a year earlier in real terms:

- Industrial output fell 13.5%
- Fixed asset investment fell 24.5%
- Retail sales shrank 23.7%

Weakening economic prospects have been reflected in sharply falling share prices with stock markets seeing some of their biggest one day falls since the crash of 1987. The FTSE100 has fallen 33%, which is close to the fall of 39% during the 2008 recession (Figure 2). Share prices have been falling across the world, and the Dow Jones has fallen by 37%. There was a slight recovery on 24 March in both the UK and US following the announcement of the passing of a $2 trillion US stimulus package (the largest in its history). This may be a recognition of significant government intervention to stem the economic effects of the virus spreading, see next section.

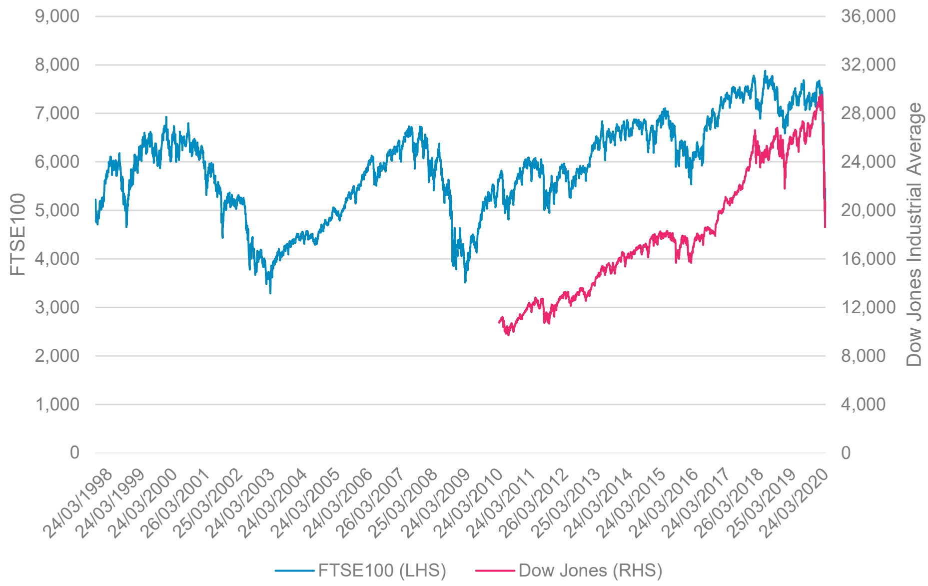


Figure 2: FTSE100 and Dow Jones Industrial Average, October 1997-March 2020

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

As the COVID-19 virus spreads it has become apparent that there would be other supply effects, beyond supply chain effects. The Chancellor of the Exchequer in his Budget speech on 11 March stated that up to 20% of the working-age population might have the infection at any one time. Everyone affected is currently expected to self-isolate for at least a week, and even if well enough for some of this time not everyone would be able to work from home. If this infection rate happened, there would be a major contraction of supply capacity. The enforced closure of some shops and facilities reduces supply in the retail, hospitality and leisure sectors, where online providers are not able to pick up all the slack. The response to panic buying in supermarkets has also been to ration supply.

Consumer demand for goods and services is likely to fall significantly with fewer opportunities to spend as people stay at home, a large amount of jobs are likely to be lost, most shops are forced to close, and households have an incentive to save for precautionary reasons. Uncertainty may also delay business investment decisions. The drop in demand has been reflected in the fall in the oil price, as Saudi Arabia started a price war with US shale, and Russian oil. For comparison, the fall by mid-March had been 53%, compared with a fall of 72% during the 2008 recession.

Markets have also reacted by moving assets into safe haven currencies, which has seen the pound fall. Sterling has fallen against both the dollar and the euro by 10% over the last month. This compares with falls of 24% against the euro, and 29% against the dollar during the recession in 2008. There was the risk of a run on the pound, manifested in rising yields (or interest rates) for government bonds. This triggered action by the Bank of England (BoE) on 19 March to improve liquidity.

There are also concerns about corporate indebtedness, and the ability of companies to roll over debt as it matures. This will depend on the impacts in the first instance on companies directly affected in sectors such as retail, hospitality, leisure, and transportation. If it manifests itself there may be a credit crunch, and the effects may spread across the economy. The extent to which this may happen will also depend on how effective bank action to build up capital reserves since the 2008 financial crisis has been and the effectiveness of the government's measures which are covered in the next section.

Government economic response to COVID-19

In parallel with the strengthening of measures to bring about "social distancing" the Government has been ramping up its economic response as the speed with which the virus spreads and its associated economic shock increases. There has been coordinated action by the BoE and HM Treasury (HMT) which began on Budget day.

The BoE can help address liquidity constraints by reducing the cost of finance, and making it more readily available to improve liquidity. There have been two tranches of support:

- 11 March
  - Base rates cut by 50 basis points to 0.25%
  - The introduction of a Term Funding Scheme, with additional incentives for Small and Medium Sized Enterprises (SMEs), which could make £100bn available at close to BoE interest rates
  - The countercyclical buffer rate cut to 0% from 1%

- 19 March
  - Base rates cut by 15 basis points to 0.1%, its lowest ever level
  - Quantitative easing increased by £200m to £645m

The Chancellor has made three big policy statements (as of 25 March) which began with a package focused on sectors and businesses most directly affected to a comprehensive package of social insurance intended for all businesses and workers. Some highlights are in Box 1.

The Government has also committed to further support for some industries although details of most of this support is still limited. The Government has suspended the rail franchise system, while there has been no mention of support for other transport companies as yet.

In the development of this package the Government initially focused on measures that can be achieved operationally quickly. Inevitably, this means that support announced up to 25 March is less comprehensive for some in the gig economy, or on zero hours contracts, who are not part of the PAYE system. Nor was there up to that date any provision for loss of earnings for the self-employed, or the challenges of providing childcare for low income working families now that schools have shut.

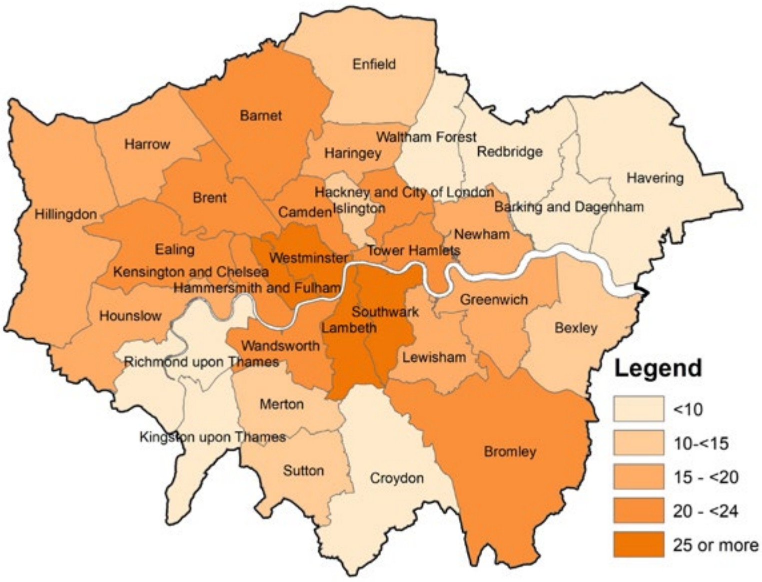
The Resolution Foundation warns that "lower earners are likely to be hit the most because of the Covid-19 crisis". By sectors, retail (excluding food), hotels and restaurants, airlines, travel operators, cleaning, arts and entertainment, and personal services like hairdressing are thought to be the most damaged ones. These industries "comprise 5 million employees and 1.2 million self-employed people. 2 million of the lowest earners also lack entitlement to sick pay. Less than one-in-ten of those in the bottom half of earners say they can work from home, making it much harder for them to protect their incomes in the face of social distancing measures."

Box 1: Summary of policy statements by the Chancellor of the Exchequer, 11 to 20 March 2020

- 11 March in the Budget
  - A three-part £12bn plan
    - ◊ An additional £5bn for health services
    - ◊ Support to individuals through extending entitlement to sick pay from the first day of illness, and extensions to Universal Credit, and a £0.5bn Hardship Fund for local authorities
    - ◊ Support to businesses including:
      - * Small business rates relief to retail, hospitality, and leisure businesses
      - * A £3,000 grant to 700,000 small businesses (including over 70,000 in London)
      - * Refunding of SMEs Statutory Sick Pay costs due to COVID-19
      - * A Coronavirus Business Intervention Loan Scheme offering guarantees on 80% of loans to SMEs up to £1.2 million each, and £1 billion in total
- 17 March
  - Initial £330bn in Government-backed and guaranteed loans for businesses – equivalent to around 15% of GDP. Any business which needs them will be able to access them.
  - A new Bank of England lending facility to support liquidity amongst larger firms, and extension of a loan scheme for SMEs up to £5m
  - A package of tax cuts and grants, in this financial year, worth more than £20 billion. Local authorities in England will be “fully compensated” for the costs of these measures:
  - For those businesses in the hospitality, retail, and leisure sectors who are not insured against a pandemic, there will be an additional cash grant of up to £25,000 to help bridge this period.
  - 12 month business rates holiday extended to all businesses in hospitality, retail, and leisure sectors, irrespective of their rateable value (the Budget had already announced no business rates for firms with rateable value of less than £51,000.)
  - Increasing cash grants from £3,000 to £10,000 for smallest 700,000 businesses.
  - Mortgage lenders will offer a 3-month mortgage holiday for those in difficulties
  - The Prime Minister subsequently committed to pass legislation to protect private renters who face financial problems from eviction
- 20 March
  - A Coronavirus Job Retention Scheme will cover up to 80% of current salary, up to £2,500 per month for workers whose jobs become furloughed
  - Deferral of next quarter of tax payments for businesses, an injection of £30 billion into the economy
  - Deferral of self-assessment payments for the self-employed until January 2021
  - Welfare measures worth £7 billion for those in and out-of-work across Universal Credit (and predecessor financial support) with increases in personal allowances and local housing allowances

Impact on London of COVID-19

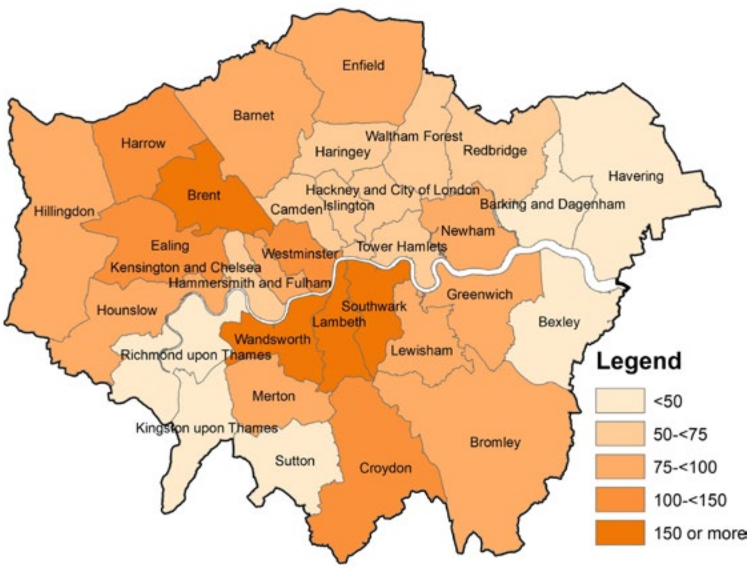
The Government has stated that London is two weeks ahead of the rest of the country in the advance of the infection. Across London as well there is a gradient in the hold of the virus, while the distribution of confirmed cases is shifting across the city. At 17 March there were 58 confirmed cases in each of Southwark and Westminster, while seven local authorities had fewer than 10 cases, (Map 1). By 24 March, there were 188 confirmed cases in Lambeth, and 181 in Southwark, while six local authorities had fewer than 50 cases, (Map 2). Please note the scales of the two maps differ.



Map 1: Distribution of confirmed COVID-19 cases around London local authorities, 17 March 2020

Note: The scales of Maps 1 and 2 differ

Source: Public Health England



Map 2: Distribution of confirmed COVID-19 cases around London local authorities, 24 March 2020

Note: The scales of Maps 1 and 2 differ

Source: Public Health England

There is however currently limited information on the possible impacts for business, and how people are responding, and the rest of this section provides what is available.

There are significant impacts for business from restrictions on the movement of people, goods and services as London is a city open to the rest of the world. In 2016 exports were 36% of London's GVA, and 31% for the UK as a whole. London has a trade surplus with the EU, and the rest of the world, while the rest of the UK has a deficit. Further, London accounts for nearly a quarter of the output of the economy.

Over the space of ten days there had been a significant change in how Londoners were responding to developments. At the same time there was still a significant proportion of the population who had not recognised the severity of the crisis and changed their behaviours. Around 6-10 March, 47% were behaving differently in response to the crisis, and this had increased to 74% by 16-19 March (Figure 3). The main response has been to improve personal hygiene, with the proportion doing this rising from 43% to 68%. Only half, or near half, of Londoners said they were avoiding crowded public places, reducing visits to restaurants, and the use of public transport. A third of Londoners said that they are self-isolating, 30% had stopped going into work, and a fifth admitted to stockpiling. This was before the Government announced the closure of leisure facilities, and the subsequent requirement to stay at home except for non-essential reasons.

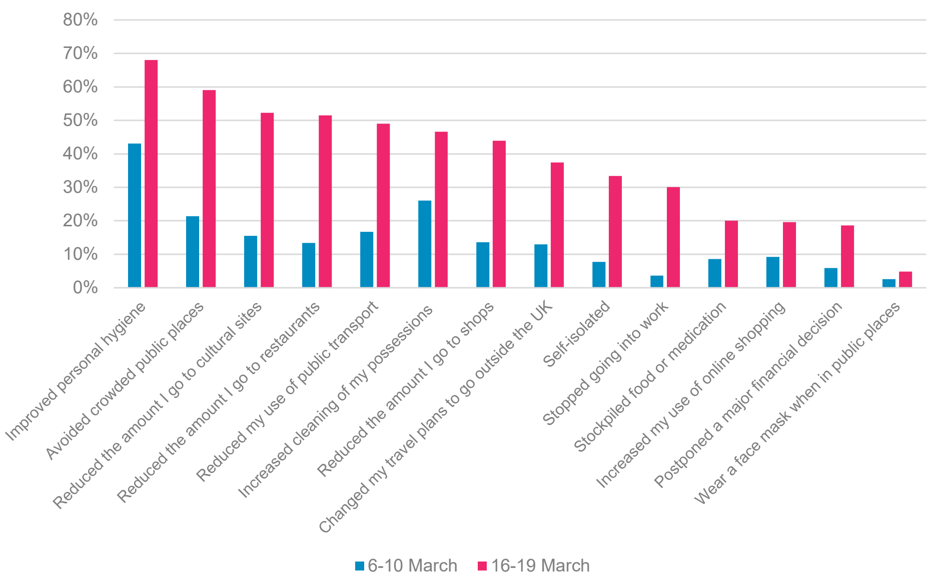


Figure 3: Actions taken by Londoners to protection from COVID-19, 6-10 and 16-19 March 2020

Source: YouGov survey for the GLA

In 2019, London was the third most visited city in the world with 19.1 million visitors, according to the Mastercard Global Destination Cities Index. Visitor numbers are likely to drop markedly. Between the 16th and 22nd March cancellations exceeded bookings from every global region by 174,000, according to travel agent bookings data from ForwardKeys. Year-on-year forward bookings are down by 61% for the month of April.

Other implications for London in the Budget statement

In addition to sections on COVID-19 the Budget included other significant expenditure proposals. By the end of this Parliament day to day spending on public services would increase by £100 billion in cash terms. The NHS will receive £33.9 billion of this money. Even before the spending commitments the Chancellor made in the following week this would have brought government spending as a share of GDP to levels last seen in the 1970s, at round 41% of GDP.

There were no new devolution announcements specific to London. Instead, the Budget stated that "the government will publish an English Devolution White Paper in the summer, setting out how it intends to meet its ambition for full devolution across England".

Other London specific announcements included:

- The Government announced that it is "committed to moving 22,000 civil service roles out of central London within the next decade". And "HM Treasury will establish representation in all the nations of the UK".
- The second Road Investment Strategy (RIS2) which will spend over £27 billion between 2020 and 2025. Amongst other measures it will include building the Lower Thames Crossing to increase road capacity across the Thames east of London by 90%.
- On Financial Regulation the Government announced that it will be taking "a number of steps to ensure that the UK's regulatory regime remains proportionate and effective. These will enhance coordination between regulators and ensure the UK continues to lead the way on financial services innovation and the use of technology, including on the regulation of payments and cryptocurrencies. The Government will also introduce a Financial Services Bill later in the session which will ensure that the UK maintains its world-leading regulatory standards and remains open to international markets".
- On fintech "a review of the UK fintech sector led by Ron Kalifa OBE to support growth and competitiveness in the sector" was announced.
- Increased funding for the UK's foremost specialist institutions (a number of which are in London) by £80 million over the next five years.
- And in response to the Grenfell tragedy, and having taken expert advice, the Budget confirmed an additional £1 billion to remove unsafe cladding from residential buildings above 18 meters to ensure people feel safe in their homes.

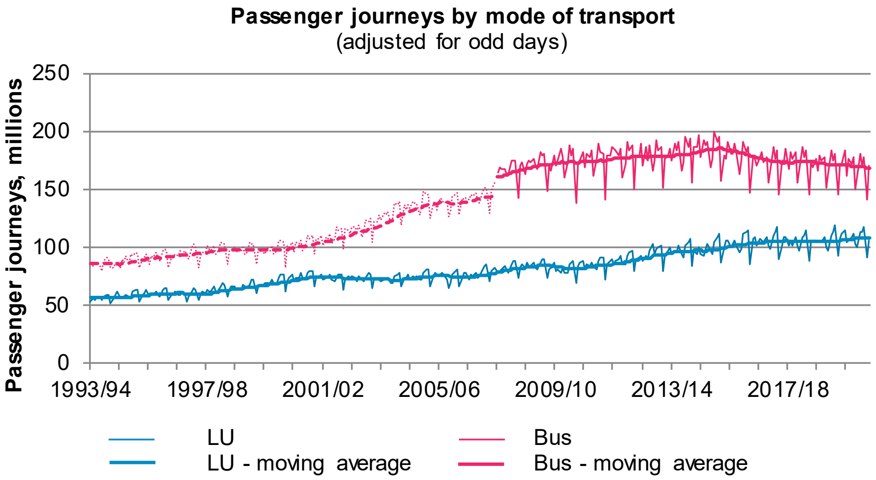
Despite limited announcements on further devolution the Budget did announce a number of significant and widely reported polices. As noted however these announcements were subsequently overtaken by COVID-19 events, which will have a significant impact on both the UK and London's economies over the coming months. These will be monitored and analysed by GLA Economics and reported in our publications such as London's Economy Today.

Economic indicators

Both bus and underground passenger journeys increased in the latest period

- A total of 275.6 million passenger journeys were registered between 5 January and 1 February, 43.0 million more than the previous period. 105.8 million of all journeys were Underground journeys while 169.8 million were bus journeys. Bus journeys rose by 28.4 million and Underground journeys by 14.6 million.
- The 13-period-moving average in the total number of passenger journeys reduced from 276.0 million to 275.8 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL on 1 April 2007. For a detailed explanation, please see LET issue 58 (June 2007).

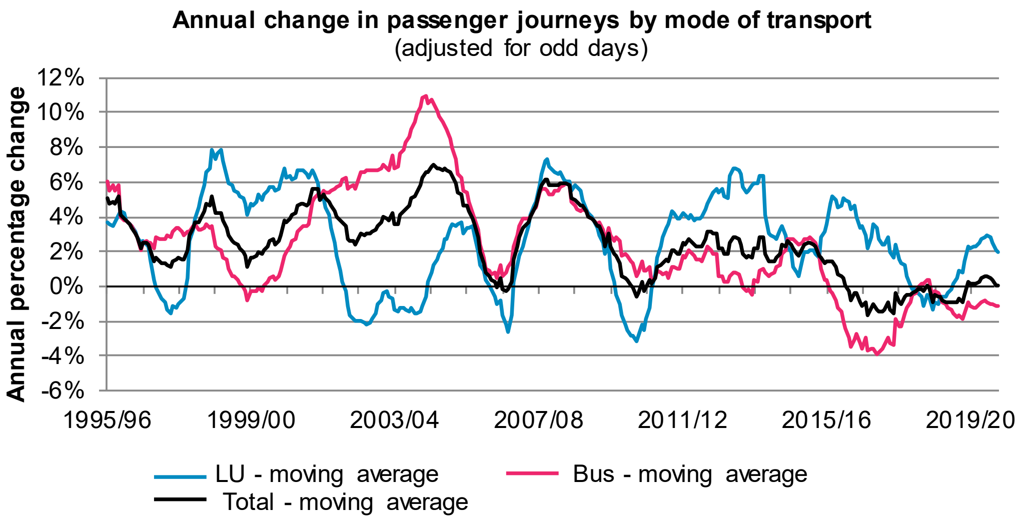
Source: Transport for London
Latest release: March 2020, Next release: April 2020



The moving average annual change in passenger journeys remained at 0.1% in the last period

- The moving average annual growth rate in the total number of passenger journeys was 0.1% between 5 January and 1 February, the same rate as in the previous period.
- The moving average annual growth rate of bus journeys increased from -1.2% to -1.1% in the same period.
- Conversely, the moving average of Underground passenger journeys went down from 2.1% to 2.0% in the last period.

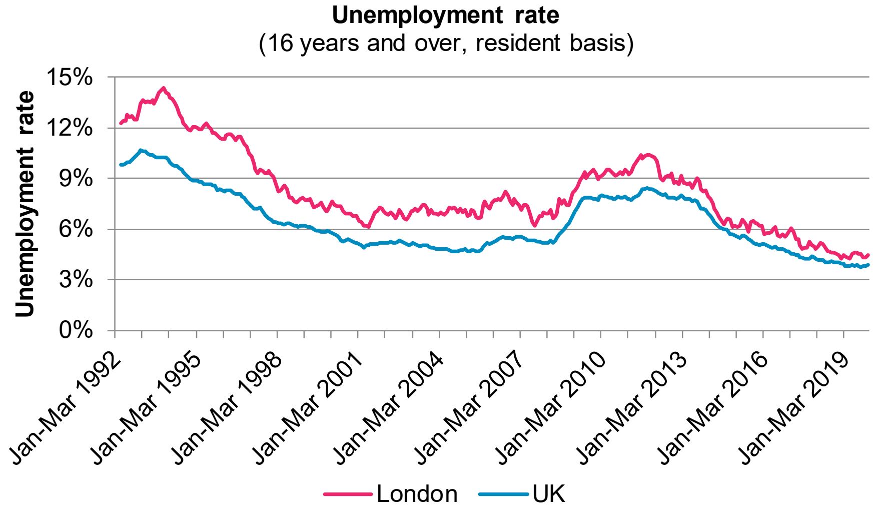
Source: Transport for London
Latest release: March 2020, Next release: April 2020



In the three-month period to January 2020, London's unemployment rate was 4.5%

- Around 224,400 residents 16 years and over were unemployed in London in the period November 2019 - January 2020.
- The unemployment rate in London was 4.5% in that period, the same rate as in August - October 2019.
- The UK's unemployment rate rose slightly from the historic record low of 3.8% in the three-month period to October 2019 to 3.9% in the three-month period to January 2020

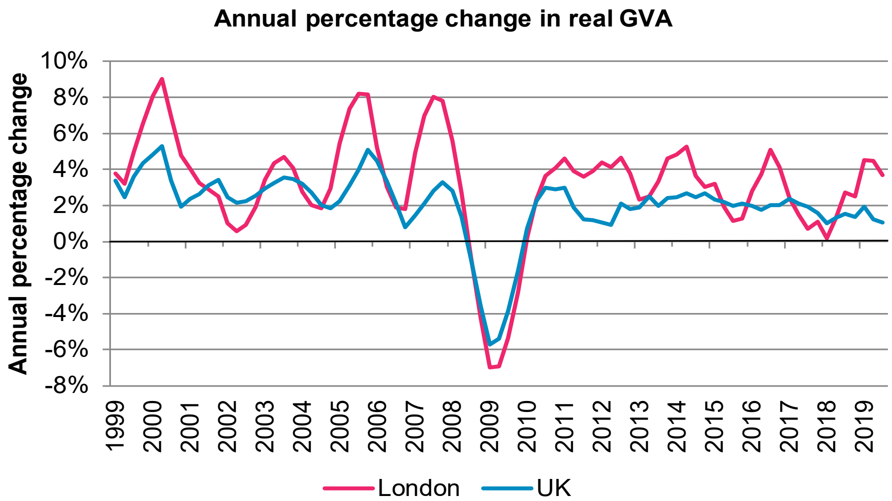
Source: ONS Labour Force Survey
Latest release: March 2020, Next release: April 2020



London's economy grew by 3.7% in the year in the third quarter of 2019

- London's annual real GVA growth fell from 4.5% in Q1 and Q2 2019 to 3.7% in the third quarter of the year, based on GLA Economics estimates. This is the highest rate for the third quarter in the last three years.
- In the UK, output annual growth for Q3 2019 registered the lowest rate since Q1 2018 (1.0%), and was 0.2 percentage points down from the previous quarter.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the most recent quarter 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.

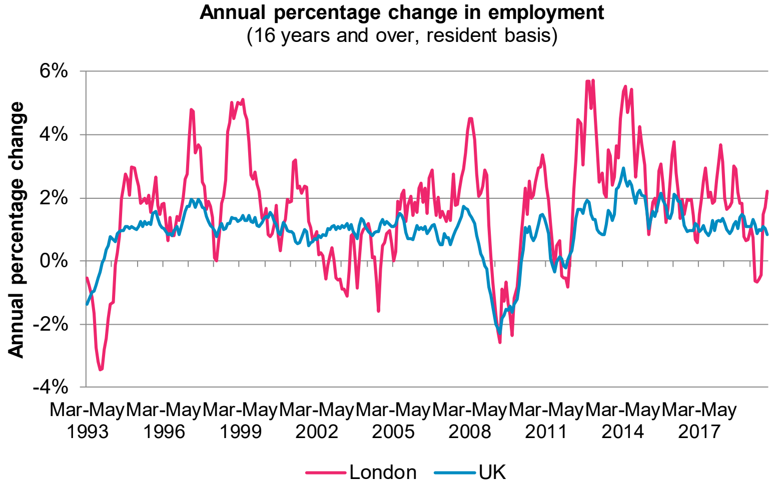
Source: ONS and GLA Economics calculations
Latest release: February 2020, Next release: April 2020



London's annual employment growth was positive in the period November 2019 – January 2020

- Around 4.8 million London residents over 16 years old were in employment during the three-month period November 2019 – January 2020.
- The rate of annual employment growth in the capital was 2.2% in that period. This rate was the highest one in one year and represented a surge from the previous period (August – October 2019) which was -0.4%.
- In the three-month period November 2019 – January 2020, the UK employment rate grew annually at a rate of 0.8%, 0.2 percentage points below the August – October 2019 period.

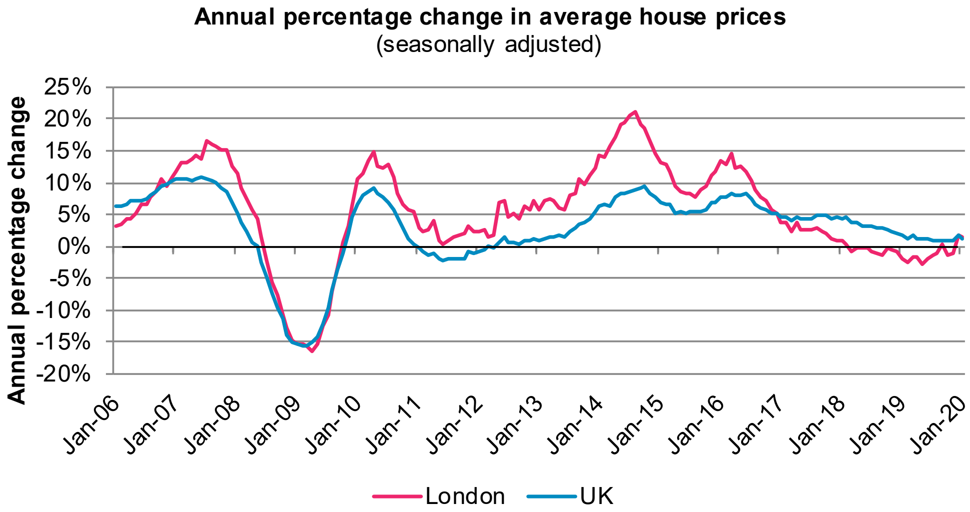
Source: ONS Labour Force Survey
Latest release: March 2020, Next release: April 2020



London house prices increased by 1.4% in annual terms in January

- In January 2020, the average house price in London was £476,629 while for the UK it was £230,830.
- The annual growth rate in average house prices in London was 1.4% in January 2020, down from 1.8% in December 2019. Despite these two recent positive rates, in January the average London house price remained 0.7% below its level in February 2018, when the last period of sustained upward growth stopped.
- Average house prices in the UK rose by 1.3% in annual terms last January. This was 0.4 percentage points lower compared to the previous month.

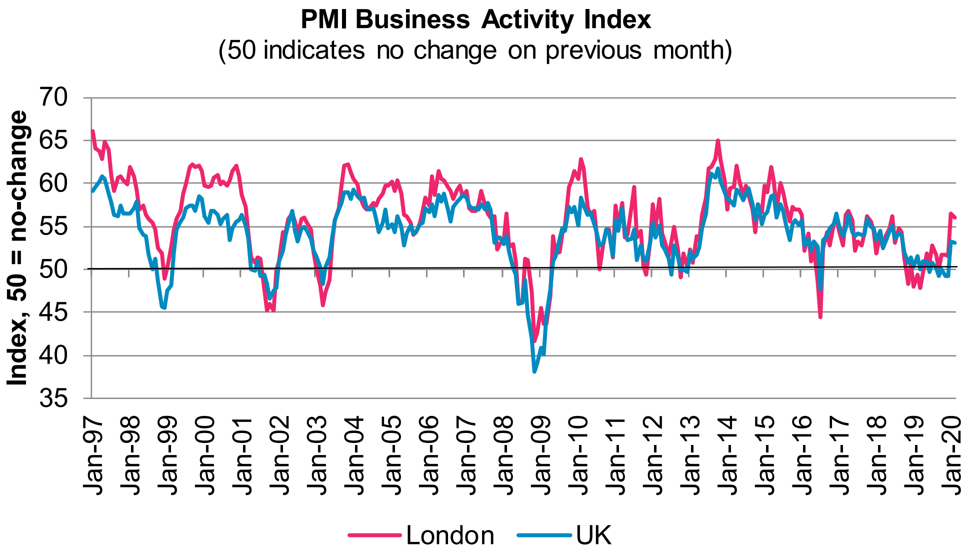
Source: Land Registry and ONS
Latest release: March 2020, Next release: April 2020



The recovery in London business activity continues

- Business activity index at London private firms remained solid in February at 56.0, slightly down from 56.5 in January.
- The UK index was also positive (53.0) in February, a similar level to January (53.3).
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50.0 suggest a month-on-month increase in activity on average across firms, while readings below indicate a decrease.

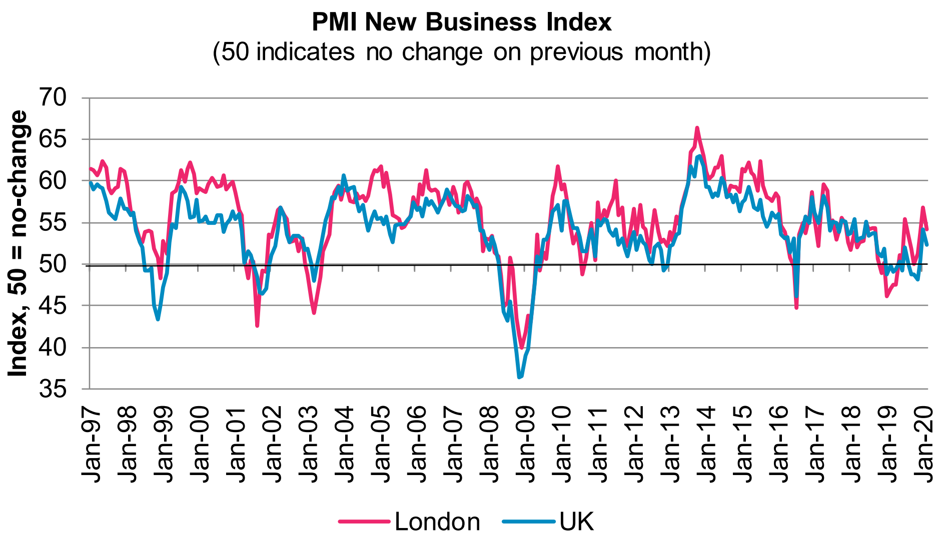
Source: IHS Markit
Latest release: March 2020, Next release: April 2020



New business activity in London decreased but remained solid in February

- The PMI New Business Index was 54.2 in London last February, down from 56.9 in January.
- For the UK, the level of this index in February was 52.3, down from 54.1 in January which was the highest level since June 2018.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

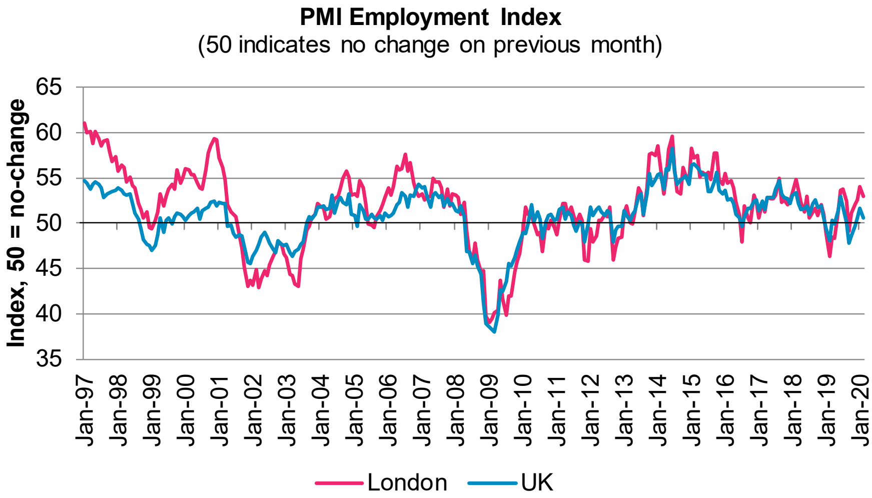
Source: IHS Markit
Latest release: March 2020, Next release: April 2020



Employment increased across the majority of London private sector firms last February, although at a slower pace

- The Employment Index for London was 52.9 in February, down from 54.0 in January.
- The index also fell for the UK in February to 50.6 from 51.7 in the previous month.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment. Readings above 50.0 suggests an increase, whereas a reading below indicates a decrease in employment from the previous month.

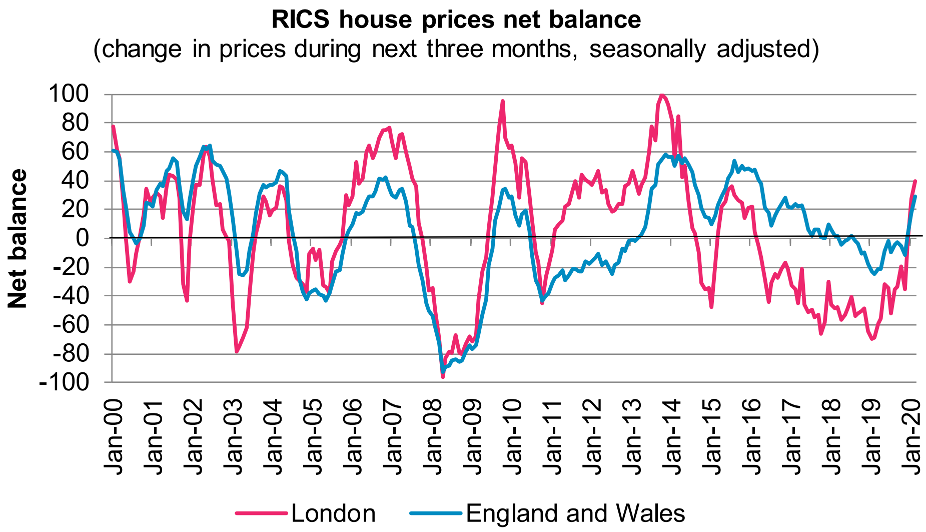
Source: IHS Markit
Latest release: March 2020, Next release: April 2020



Most property surveyors reported a rise in house prices in February since May 2014

- In the three months to February, the net balance of property surveyors reporting a rise in house prices was 39, up from 27 in the three months to January. This was the highest level of the index since May 2014.
- For England and Wales, the RICS house prices net balance index also increased from 18 in the three months to January 2020 to 29 in the three months to February 2020. The February figure was the highest one since April 2016.
- The net balance index measures the proportion of respondents reporting a rise in prices minus a decline.

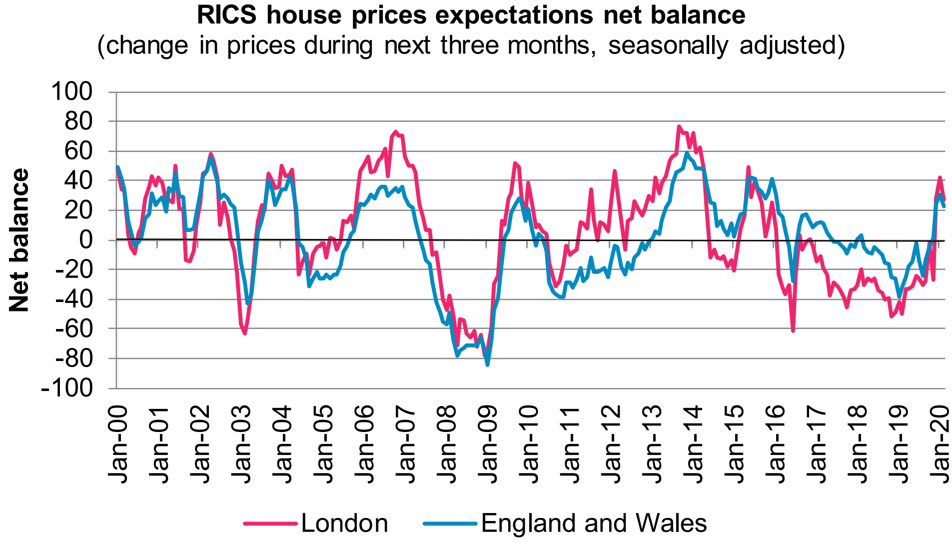
Source: Royal Institution of Chartered Surveyors
Latest release: March 2020, Next release: April 2020



Net expectations of house price rises in London decreased in February

- In the three months to February, surveyors reported a fall in the net expectation of London housing prices (27) when compared to the previous month (42).
- Sentiment in England and Wales has been positive for four consecutive months. In February, it was 22, down from 30 in January.
- The net balance index measures the proportion of respondents reporting a rise in prices minus those reporting a decline.

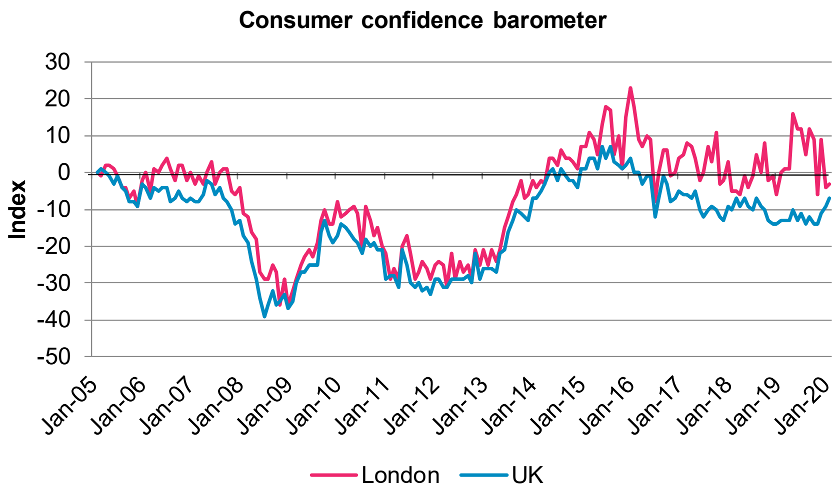
Source: Royal Institution of Chartered Surveyors
Latest release: March 2020, Next release: April 2020



Consumer confidence remained negative in London in February

- The consumer confidence index remains negative in London. This index was -3 in February, broadly unchanged from -4 in January.
- Sentiment for the UK remained negative in February as well (-7), but slightly higher than it was in January (-9). The UK has not shown 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 NOP on behalf of the European Commission
Latest release: February 2020, Next release: March 2020



Regional, sub-regional and local Gross Value Added estimates for London, 1998-2018

By **Eduardo Orellana**, Economist

In December 2019, the Office for National Statistics (ONS) released provisional estimates of regional, sub-regional and local gross value added (GVA) for 2018[1] and updated historic data from 1998. This supplement presents the main London findings from this release.

Using the balanced approach as measued by GVA(B), London's total GVA was above £436.5 billion in 2018, up 2.1% in real terms on 2017. GVA(B) became a national statistic in November 2018, meaning that its methodology has been assessed by the Office for Statistics Regulation as fully compliant with the Code of Practice for Statistics. This approach takes both the income approach (GVA(I)) and the alternative production approach (GVA(P)) to measuring the economy and combines them into a single estimate which allows for more granular breakdowns and for the data to be presented in constant prices.

In 2018, London's GVA(B) accounted for 23.7% of the UK's total output, the largest share of the historic series – along with year 2016 – up from 19.2% in 1998. London was also the region in the UK with the highest average GVA(B) per hour worked – a usual measure of labour productivity – at £2,327 for the same year, 31.4% higher than the UK average which was £1,771.

As can be observed in Figure A1, over two-thirds of London's GVA(B) was produced in Inner London in 2018, with Inner London - West alone accounting for 44.5% of the total. Indeed, Inner London - West had a higher GVA(B) than all UK regions or nations except for the South East (and of course, London). Inner London - West also saw the greatest change in its relative importance to London's economy having previously accounted for 39.2% of London's GVA(B) in 1998. The increase in Inner London – East was only 2.2 percentage points. In contrast, all parts of Outer London declined in importance by 2-3 percentage points compared to 1998 despite absolute growth in all London sub-regions.

1 ONS, December 2019, 'Regional economic activity by Gross Value Added (balanced), UK: 1998 to 2018'.

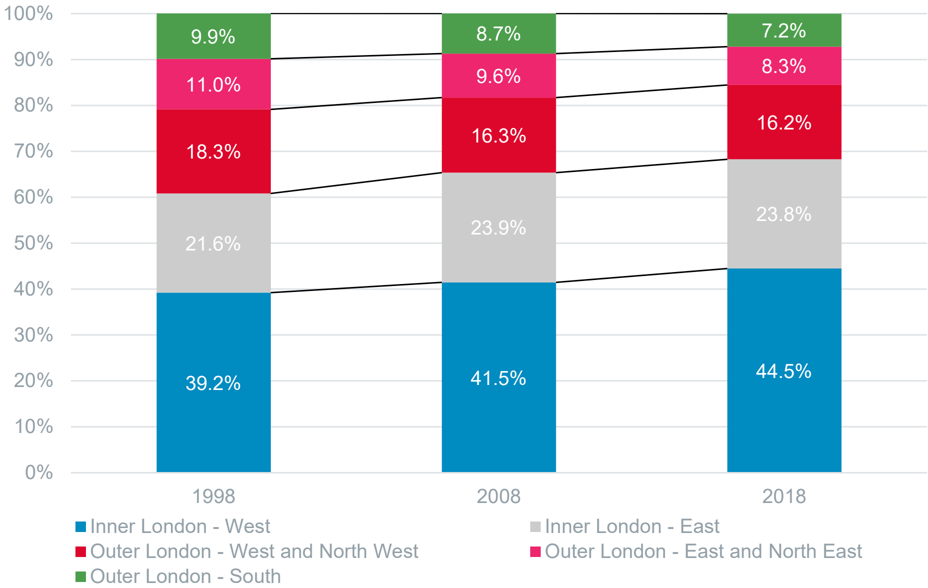


Figure A1: Geographic breakdown of headline[2] real London GVA(B) 1998 - 2018

Source: Regional Accounts, ONS

Going into the more detailed geographical breakdown, Figure A2 shows that Westminster and the City of London were the local authorities (LAs) with the highest output in London in 2018 (£66.2 and £66.1 billion, respectively). These two LAs alone accounted for above 30% of London's GVA(B). By contrast, Lewisham with £3.6 billion and Barking and Dagenham with £3.3 billion were the London LAs with the lowest GVA(B) in the same year, accounting for 1.6% of London's total output.

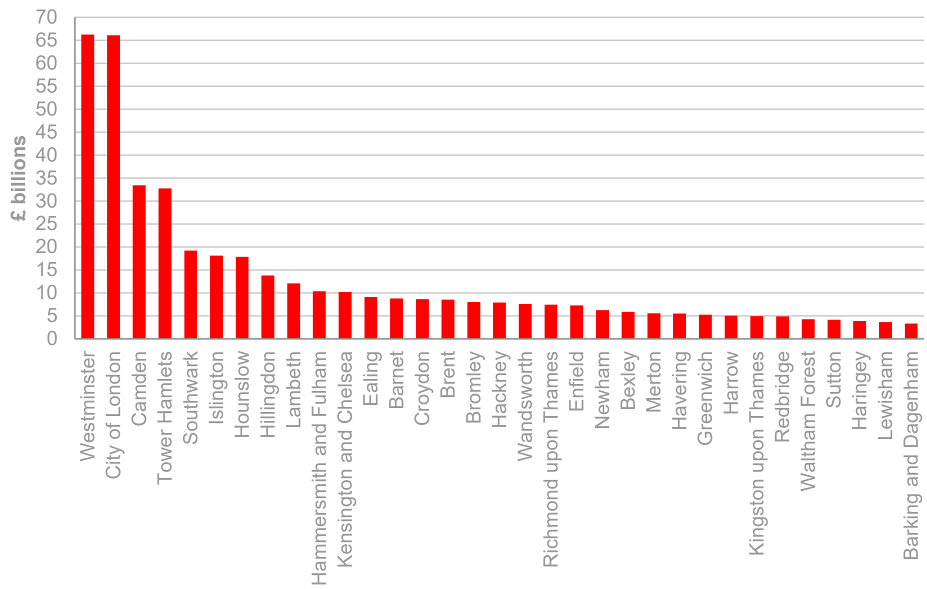


Figure A2: Real GVA(B) by London local authority in 2018

Source: ONS

The real GVA(B) growth rates between 1998 and 2018 among the 33 London's LAs are presented in Table A1. All London LAs experienced growth in the mentioned period although differences are evident. The fastest rates of real GVA(B) growth were seen in Camden and Hounslow at 139% and 132%, respectively. In contrast, Croydon and Barking and Dagenham saw the slowest rates of real GVA(B) growth of 21% and 11%, respectively.

2 UK includes Extra-Regio (which comprises compensation of employees and gross operating surplus which cannot be assigned to regions)

Table A1: Real GVA(B) growth rate of London's LAs 1998-2018

Source: ONS and GLA Economics' calculations

Rank	LA	% increase	Rank	LA	% increase	Rank	LA	% increase
1	Camden	139%	12	Wandsworth	75%	23	Ealing	40%
2	Hounslow	132%	13	Richmond upon Thames	62%	24	Havering	38%
3	Hackney	128%	14	Newham	59%	25	Bexley	35%
4	Tower Hamlets	122%	15	Kingston upon Thames	51%	26	Hillingdon	33%
5	City of London	118%	16	Brent	51%	27	Bromley	32%
6	Hammersmith and Fulham	110%	17	Waltham Forest	49%	28	Lewisham	30%
7	Islington	105%	18	Greenwich	43%	29	Harrow	29%
8	Southwark	104%	19	Barnet	43%	30	Merton	28%
9	Kensington and Chelsea	92%	20	Redbridge	43%	31	Sutton	27%
10	Lambeth	86%	21	Enfield	40%	32	Croydon	21%
11	Westminster	80%	22	Haringey	40%	33	Barking and Dagenham	11%

GVA(B) data by London sectors for the years 1998, 2008 and 2018 are presented in Table A2. In 2018, over 29% of London's GVA was generated by the Real estate activities (14.9%) and the Financial and insurance activities (14.4%) sectors combined, totalling £127.9 billion. The value of these industries represented 10.8% and 15.2%, respectively, of London's total GVA(B) in 1998. Professional, scientific and technical activities and Information and communication industries have also played an important role in London's economy in the last couple of decades, reaching 13.3% and 12.2% of the output in 2018, respectively, compared to 9.2% and 7.8% of London's GVA in 1998. In fact, as a proportion of London's total output, the Information and communication sector has grown more than any other industry in the UK since 1998, followed by Real estate activities and the Professional, scientific and technical industry. In contrast, Manufacturing had the largest decrease from 5.2% in 1998 to 1.9% in 2018.

Table A2: Headline real GVA(B) in London by industry (£ billion and as per cent of total London GVA), 1998, 2008 and 2018

Source: Regional Accounts, ONS

	1998		2008		2018	
	Industry GVA (£b)	% of London's economy	Industry GVA (£b)	% of London's economy	Industry GVA (£b)	% of London's economy
Primary & utilities[3]	£2.9	1.2%	£4.8	1.5%	£4.2	1.0%
Manufacturing	£12.5	5.2%	£8.7	2.6%	£8.2	1.9%
Construction	£12.3	5.1%	£14.1	4.2%	£20.6	4.7%
Wholesale and retail trade; repair of motor vehicles	£25.7	10.6%	£26.0	7.8%	£32.7	7.5%
Transportation and storage	£15.3	6.3%	£16.3	4.9%	£18.2	4.2%
Accommodation and food service activities	£7.5	3.1%	£9.5	2.9%	£12.4	2.8%
Information and communication	£18.9	7.8%	£33.4	10.0%	£53.3	12.2%
Financial and insurance activities	£36.7	15.2%	£62.2	18.7%	£62.7	14.4%
Real estate activities	£26.2	10.8%	£47.8	14.4%	£65.2	14.9%
Professional, scientific and technical activities	£22.2	9.2%	£36.7	11.0%	£57.9	13.3%
Administrative and support service activities	£11.2	4.6%	£13.8	4.2%	£26.9	6.2%
Public administration and defence; compulsory social security	£13.9	5.7%	£14.6	4.4%	£16.5	3.8%
Education	£14.7	6.1%	£16.6	5.0%	£19.7	4.5%
Human health and social work activities	£9.8	4.1%	£15.3	4.6%	£20.9	4.8%
Arts and other services[4]	£11.7	4.9%	£12.8	3.8%	£17.1	3.9%
Total	£241.3	100.0%	£332.8	100.0%	£436.5	100.0%

3 This includes the following sectors: Agriculture, Forestry and Fishing; Mining and Quarrying; Electricity, gas, steam and air conditioning supply; and Water supply, sewerage, waste management and remediation activities.

4 This category includes the subsectors: 'Arts, entertainment and recreation', 'Other service activities', and 'Activities of households'.

The ONS GVA(B) data by industry also highlights predictable, major differences in sectoral spread between Inner and Outer London. In 2018, Manufacturing was concentrated in Outer London (accounting for 78.1% of all London's manufacturing) while Inner London produced 94.7% of London's GVA in Financial and insurance activities; 83.9% of Professional, scientific and technical activities; and 76.9% of the Information and communication output.

To sum up, the latest ONS GVA(B) statistics show that London remains as the largest economy of any region or nation of the UK, with more importance than ever for the national economy. In 2018, London's real output grew at a moderate rate although below its historic standards. Some industries such as Real estate; Information and communication; and Professional, scientific and technical activities especially contributed to London's growth in the last two decades, although this growth is also increasing the divergence between Inner and Outer London.

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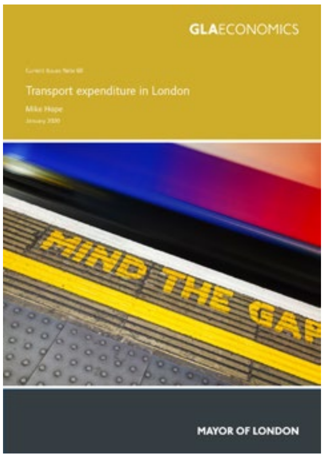

Transport expenditure in London
This current issues note looks at the case for continuing transport expenditure in London.

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.

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Download the full publication.

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London's Economy Today is published towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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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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