GLAECONOMICS

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Rising inflation places pressure on living costs

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Data from the Office for National Statistics (ONS) showed that Consumer Price Index (CPI) inflation reached 5.5% year-on-year in January (Figure 1), ticking up 0.1 percentage points from the December reading and setting a new 30-year high (since March 1992).

The fastest monthly price growth came from alcohol and tobacco and food. The largest contributions to annual growth came once again from vehicle fuels (0.7 percentage points (ppts)), secondhand cars (0.7ppts), gas (0.4ppts) and electricity (0.4ppts). These areas reflect the impact of rising global energy prices and supply chain challenges, but price pressures are increasingly widespread as costs trickle through the economy. While goods prices are rising most rapidly, growing 7.2% year-on-year in January, services prices are also seeing some of the fastest increases in several years, rising at an annual pace of 3.2%.

At a regional level, the National Institute of Economic and Social Research (NIESR) estimates a set of regional trimmed-mean inflation series, cutting out the most volatile prices to identify underlying inflation. This gauge was running at 5.2% year-on-year for London in January, compared to 4.3% for the UK overall. This placed London as one of the two UK regions facing the highest rate of underlying inflation, just behind the West Midlands. We have recently set out our view on the impact of the rising cost of living on Londoners in a published report and the latest figures reinforce the concerns we expressed there.

Also in this issue

Datastore

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

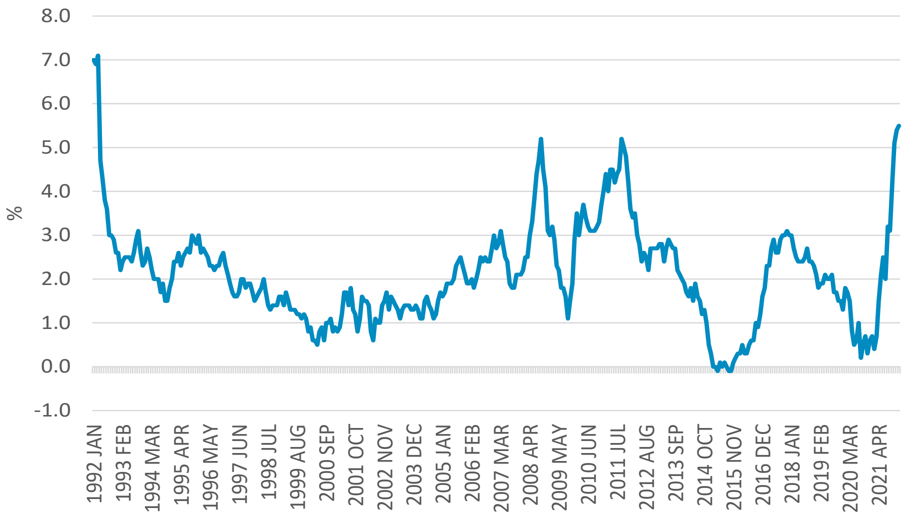


Figure 1: Annual rate of UK CPI inflation (%)

Source: ONS

Polling in January by YouGov on behalf of the GLA backed up this picture of key prices rising for Londoners, with 79% of respondents reporting an increase in their cost of living over the last six months. Around 13% reported that they were struggling to make ends meet and among Londoners with gross household incomes of less than £20,000, the share more than doubles to 27%. Londoners were most likely to report larger increases in their food and energy bills, both of which are spending categories that lower-income groups devote a relatively large share of household spending.

Current high inflation rates after rising further in coming months are expected to dissipate over time, but this looks increasingly likely to be at a gradual pace. Key supply chain indicators like shipping costs, business sentiment around backlogs and supplier delays have eased, though they remain at elevated levels. However, the Russia-Ukraine crisis is contributing to supply concerns and rising oil prices, while market signals point to fears that global energy costs will take some time to ease.

Bank of England raises interest rates again

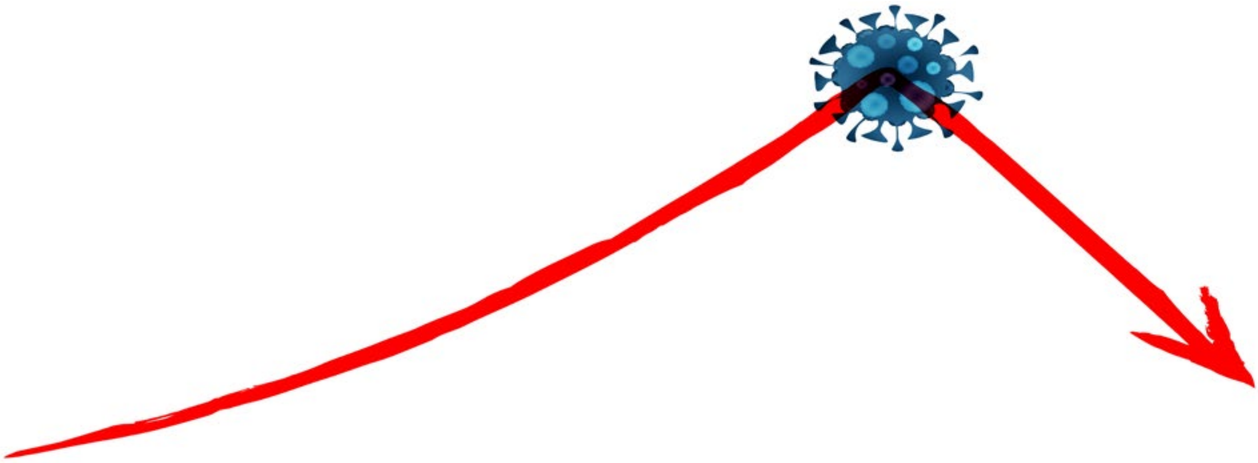
In response to rising inflation, the Bank of England raised its policy interest rate by 25 basis points at its meeting on 3 February, leaving the Bank Rate at 0.5%. Coming after the December increase to 0.25%, this was the Bank's first back-to-back pair of rate hikes since 2004 as policymakers sought to bring inflation back under control after its recent increase.

The Monetary Policy Committee has adopted an increasingly hawkish tone on inflation and after December's meeting saw a single Committee member dissent in favour of keeping rates on hold; February saw four members dissent in favour of hiking by 50 basis points rather than 25. With fears easing over the impact of the Omicron variant of COVID-19 on the UK economy and inflation continuing to rise, the Bank emphasised growing concerns around wage growth. Policymakers emphasised evidence of an increasingly tight labour market, with vacancies spiking while unemployment eases, potentially prompting wage increases ahead of productivity gains and stoking more persistent high inflation.

Despite projections that underlying wage growth would pick up to around 5% across the course of 2022 (from a current pace of around 4.0-4.5%), the Bank still forecast that these gains would be more than eroded by high inflation. A peak inflation rate of over 7% in April and price gains of more than 5% year-on-year out to early 2023, combined with tax and benefit changes, meant that the Bank expected real post-tax labour income to drop by 2% in 2022. This constitutes one of the tightest squeezes on household incomes on record and certainly for more than ten years. As a result, the Bank projects demand to slow and unemployment to rise from mid-2022, leaving some spare capacity in the economy by 2023. Despite this gloomy outlook, the Bank maintained a tight focus on its mandate to bring inflation to the 2% target over the medium term. Policymakers observed that while the UK faces a cost shock that will lower aggregate purchasing power, the Bank does not believe it can change this shift but can only try to ensure moderate inflation in the medium term.

While academic literature suggests that London's relatively lower share of manufacturing and other goods sectors may make it more resilient to rising interest rates than some other parts of the UK, the capital's high house prices may create some offsetting pressure (Furceri & Mazzola, 2019). Overall, the Bank's projections of high inflation, rising unemployment and weak real incomes make for sobering reading for London, the UK region estimated to have the highest price levels in normal times and the slowest unemployment recovery from the pandemic.

All Covid restrictions to end in England



The Government has announced that all remaining COVID-19 restrictions and self-isolation support payments in England will end on 24 February, a month earlier than previously planned, while free testing will end on 1 April. This removes with immediate effect the legal requirement to isolate if you are infected with COVID-19, with all COVID-19 related regulations planned to end on 1 April.

Despite the end of legal restrictions, the seven day average of people testing positive for infections in the capital stood at over 5,500 on 12 February. Still, infections are down in London from their recent peak of over 29,000 towards the end of December 2021 and data shows that the economy continues to recover from the impact of the Omicron variant. Thus, consumer-facing indicators for London continue to rise although still remain below pre-pandemic levels (Figure 2).

Although consumer-facing sectors in the capital may be recovering from their lockdown lows, the continued impact of working from home, along with low international tourist numbers, may be dampening the spring back especially in the Central Activities Zone. Thus, looking at the ongoing prevalence of working from home in the UK the ONS has found that for London single-site businesses in the services sector had 51% of their workforce estimated to be working from home or using a hybrid working model in mid-January 2022. This was the highest percentage for the sector of any UK nation or region, with the UK average standing at 33%. While, for all industries the figure stood at 50% in London compared to 29% for the UK as a whole.

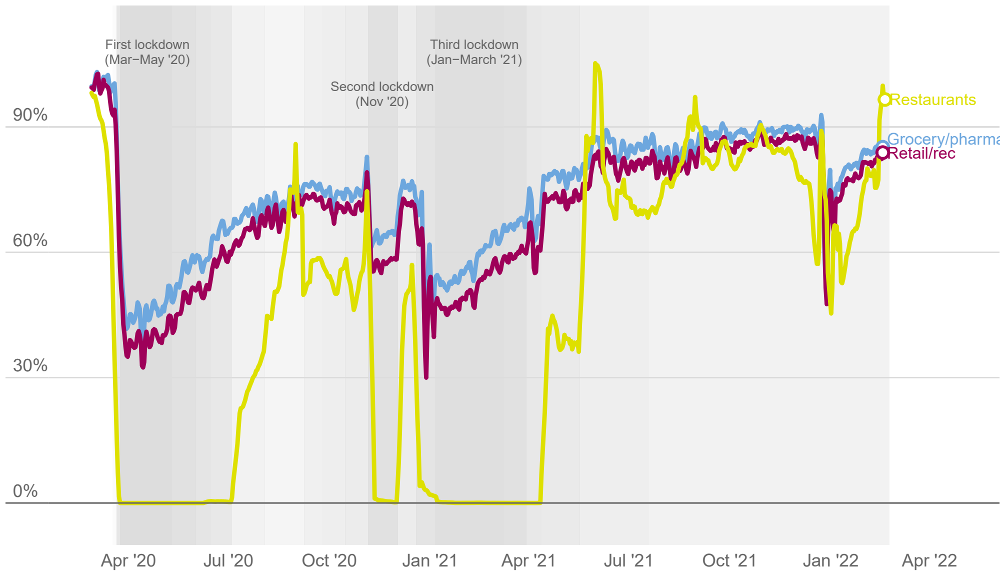


Figure 2: Individual personal activities in London, March 2020 – February 2022, relative to pre-COVID-19 baseline

Source: Grocery and retail metrics from Google Mobility, social venues (bars, event spaces etc) from Purple public Wifi and restaurant bookings from OpenTable

Payrolled employment in London above pre-pandemic levels

As noted the recovery from the pandemic continues. Provisional data from HMRC's Pay As You Earn (PAYE) RTI dataset showed an increase in the number of payrolled employees living in London in January 2022 of around 22,600 or 0.5% on the previous month, with it further showing an increase of 252,000 or 6.4% on the previous year. The number of payrolled employees in London was also up, by 16,100 or 0.4%, on pre-pandemic (February 2020) levels although this is a smaller percentage increase than for the UK as a whole (1.5%). There is also wide variation in the recovery in payrolled employees by sector in the capital (Figure 3). Public administration & defence saw the highest percentage growth in payrolled employees at 9.8% between February 2020 and January 2022, followed by Administration (6.5%) and Health and social work (6.0%). Hospitality saw the largest decrease of 10.1%, followed by Other services (down by 5.3%) and Arts, entertainment & recreation (down by 5.1%)

London's unemployment rate also continued to fall from its pandemic peak, but was still higher than the UK average in the three months to December 2021. The capital's unemployment rate was estimated at 5.2%, down 0.5ppts on the quarter and down 2.1ppts from a year earlier. The UK average was 4.1%.

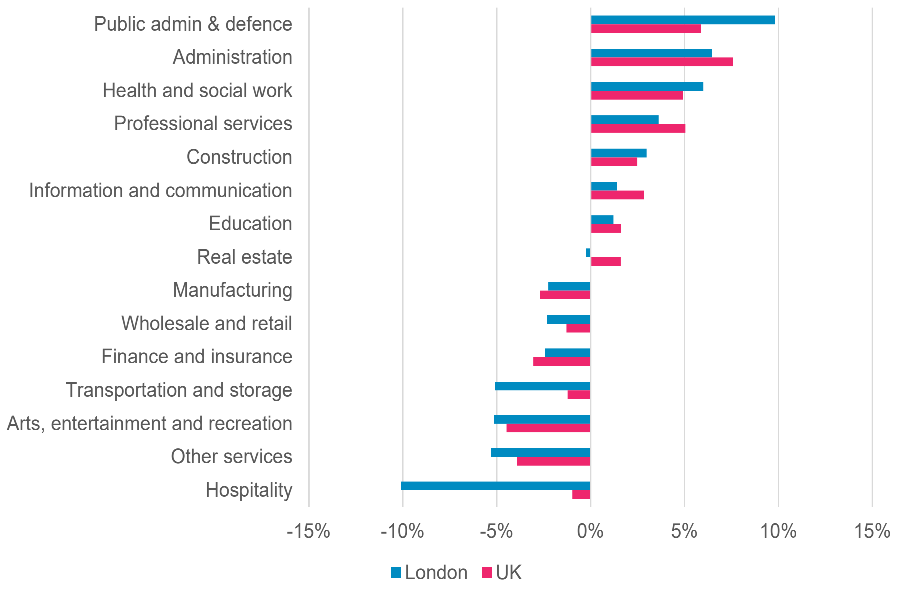


Figure 3: Change in payrolled employees by sector in London & UK between February 2020 and January 2022

Source: HM Revenue and Customs – Pay As You Earn Real Time Information
Note: Estimates are based on where employees live. Excludes sectors with fewer than 25,000 payrolled employees in London

The claimant count, the number of people claiming Jobseeker's Allowance plus people claiming Universal Credit who are required to seek work, is a timelier source of data, although some new claimants will be in part-time work. Still this rate has also declined from a peak of 8.4% in March 2021 to 5.6% in January 2022 in London. However, the rate varies across the capital with Haringey having the highest claimant count rate at 8.1%, followed by Newham (7.8%) and Brent (7.7%). Richmond upon Thames (2.9%), Kingston upon Thames (3.1%) and Sutton (3.3%) had the lowest rates at the beginning of the year.

UK GDP grows strongly in 2021

The ONS published estimates of UK GDP growth in the final quarter of 2021 this month. In this they found that UK output grew by 1.0% in Q4 2021. This follows a downwardly revised growth rate of 1.0% in Q3 2021. Over the whole of 2021 GDP grew by 7.5%, following a fall of 9.4% in 2020. GDP measured by the quarterly measure remains 0.4% below its pre-pandemic levels in Q4 2019, although as measured by the monthly measure GDP is now at the same level it was in February 2020 (prior to the pandemic) despite having fallen by 0.2% in December 2021.

Of the major sectors of the economy, the services sector grew by 1.2% in Q4 2021 and is now 0.5% above its pre-pandemic levels, the construction sector grew by 1.0%, but the production sector declined by 0.4%. However, although the service sector as a whole grew at the end of last year the ONS notes that "the Accommodation and food services, and Wholesale and retail trade industries were both adversely impacted by the emergence of the Omicron variant towards the end of the quarter", with both seeing output declining by around 0.1%.

London output continued to grow in the first half of 2021

The ONS published their quarterly estimate of regional GDP this month, with London's economy rising at a faster-than-expected 4.5% across Q2 2021. This positive reading comes after London also saw nearly no contraction in Q1 2021 despite the third lockdown, and puts London to within less than 1% of its pre-pandemic level of output. As a result, while London's Q2 growth was the third-lowest of any UK region, its recovery from the pandemic in level terms is among the most advanced, with only Wales significantly ahead.

Within the sectors of London, Accommodation and Food services grew by far the fastest, but its advance of just under 40% was still not enough to recover the lost output from two successive contractions in the previous quarters. Output in the hospitality sector remains almost 40% below pre-pandemic levels. Construction and production sectors rose faster than services sectors on average, though Construction still has the weakest recovery overall. Within the services sectors, Wholesale and Retail has staged the strongest recovery so far, with output reaching nearly 12% above pre-pandemic levels, though Information and Communication is not far behind at 11% above its end-2019 output level.

Looking ahead, we expect growth to have decelerated across the second half of 2021, though this month's figures suggest that London was closer than previously estimated to recovering its pre-pandemic levels of output. Plan B restrictions and Omicron variant infections will likely have brought the capital's economy to its slowest growth since the third lockdown at the end of the year, but we do not expect the recovery to go into reverse with many sectors avoiding significant damage. Moving into 2022, high inflation and pressure on household incomes are likely to squeeze demand more than we previously expected, with consumer-facing sectors the first to slow before the wider economy moderates towards a more normal pace of growth. We will be releasing an update to our macroeconomic forecast and scenarios at the end of this month. GLA Economics will continue to monitor these issues over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

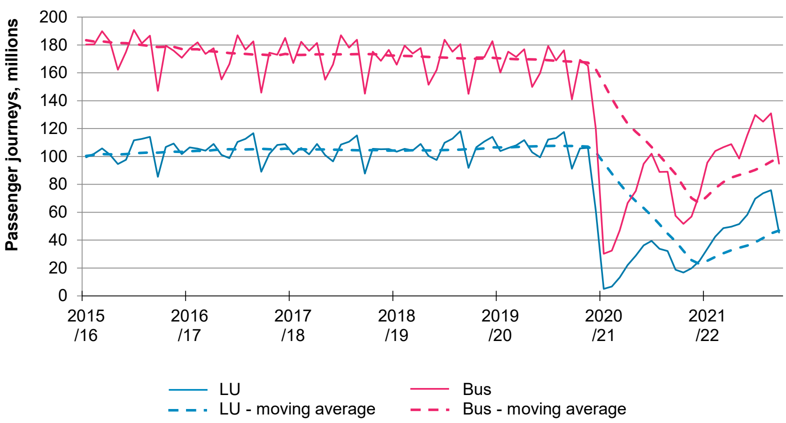
Economic indicators

Passenger journeys on London public transport decreased because of Christmas and Omicron-related restrictions

- 140.2 million passenger journeys were registered between 12 December 2021 and 8 January 2022, 66.5 million journeys less than in the previous period (14 November – 11 December 2021).
- In the latest period, 45.4 million of all journeys were underground journeys and 94.8 million were bus journeys. Numbers on both journey types decreased.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 141.3 in the previous period to 146.2 in the latest period.

Source: Transport for London
Latest release: February 2022, Next release: March 2022

Passenger journeys by mode of transport
(adjusted for odd days)

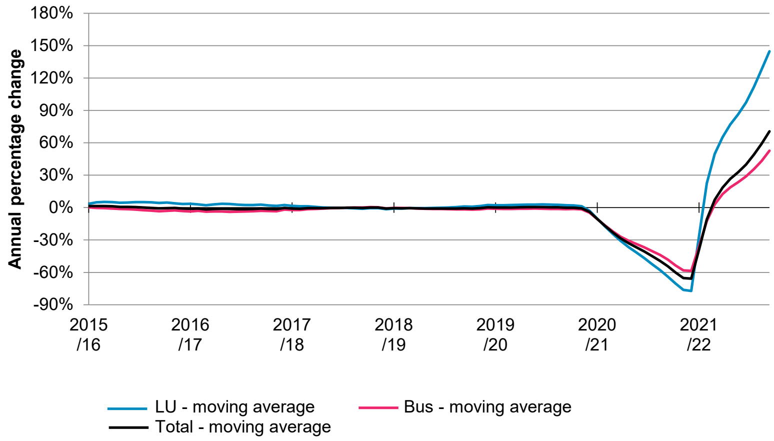


Despite the fall in passenger journeys last month numbers continue to grow on an annual basis

- The 13-period moving average annual growth rate in the total number of passenger journeys was 70.6% in the period 12 December to 8 January, up from 59.0% in the previous period, 14 November to 11 December.
- The moving average annual growth rate of bus journeys increased from 43.2% to 52.7% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 127.8% to 144.7% between those periods.

Source: Transport for London
Latest release: February 2022, Next release: March 2022

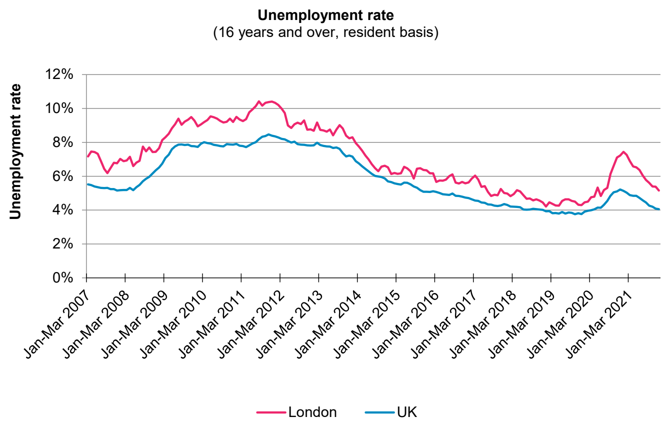
Annual change in passenger journeys by mode of transport
(adjusted for odd days)



London's unemployment rate fell to 5.2% in the quarter to December 2021

- Around 262,000 residents 16 years and over were unemployed in London in October - December 2021.
- The unemployment rate in London was 5.2% in that period, down from 5.6% in the previous quarter, July – September 2021.
- The UK's unemployment rate also decreased, from 4.3% in July – September to 4.1% in October – December 2021.

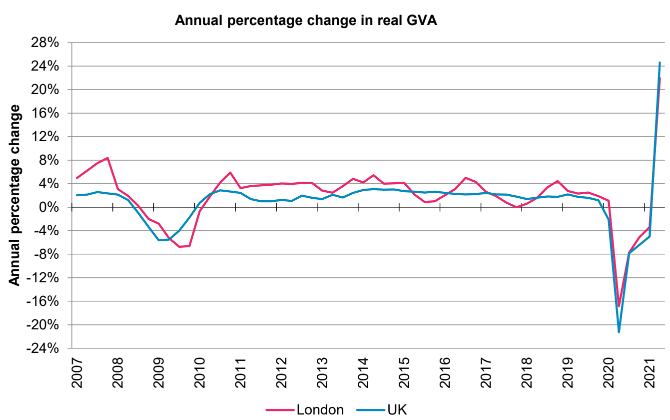
Source: ONS Labour Force Survey
Latest release: February 2022, Next release: March 2022



London's economy is estimated to have grown by 21.9% in the year to Q1 2022

- London's real GVA expanded by 4.5% in Q2 2021 - compared with Q1 2021 - after shrinking slightly by 0.1% in the previous quarter. London's real GVA in Q2 2021 remained 0.9% below its pre-crisis level in Q4 2019.
- The UK's real GDP quarterly growth rate for Q2 2021 was 5.6% after falling by 1.2% in the previous quarter. Overall UK GDP in Q2 remained 2.3% below its pre-crisis level in Q4 2019.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so should be more robust.
- 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.

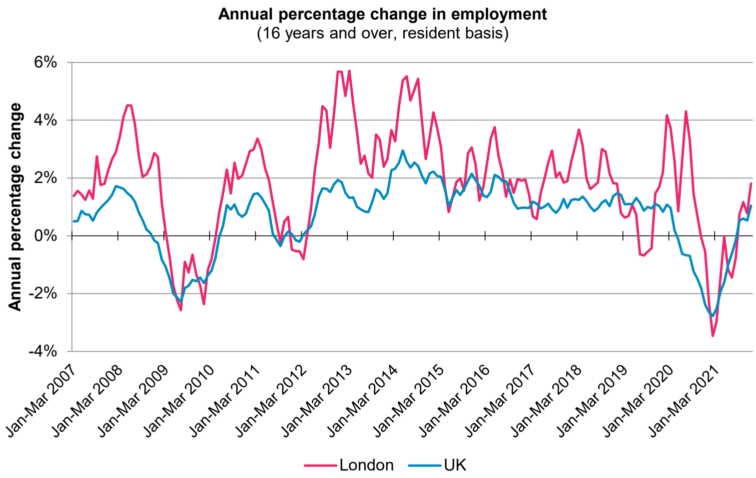
Source: ONS and GLA Economics calculations
Latest release: February 2022, Next release: May 2022



London's year-on-year employment growth rate was 1.8% higher in the quarter to December 2021

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of October –December 2021.
- The rate of employment growth in the capital was 1.8% in the year to this quarter, compared with 0.8% in the previous quarter to September 2021.
- The change in the UK's employment annual growth rate was 1.0% in the most recent quarter, and 0.5% in the previous quarter.

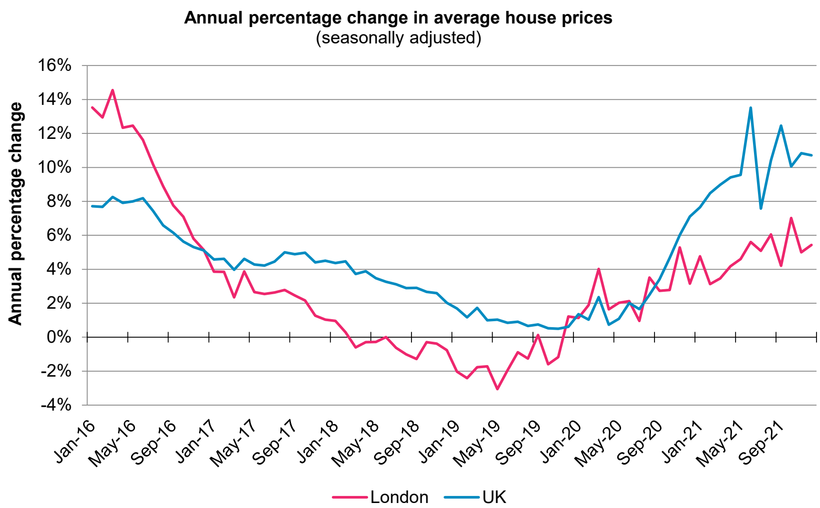
Source: ONS Labour Force Survey
Latest release: February 2022, Next release: March 2022



House prices growth in London remained positive in December

- In December 2021, the average house price in London was £522,000 while for the UK it was £272,000.
- Average house prices in London rose by 5.4% in annual terms in December, more than the November rate of 5.0%
- Average house prices in the UK rose by 10.7% in annual terms in December, close to the November rate of 10.8%.

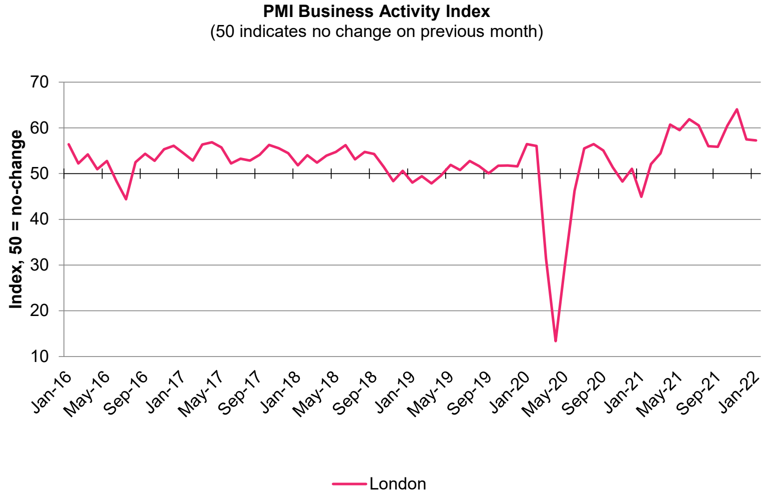
Source: Land Registry and ONS
Latest release: February 2022, Next release: March 2022



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

- The business activity PMI index for London private firms decreased slightly from 57.5 in December to 57.3 in January
- 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.

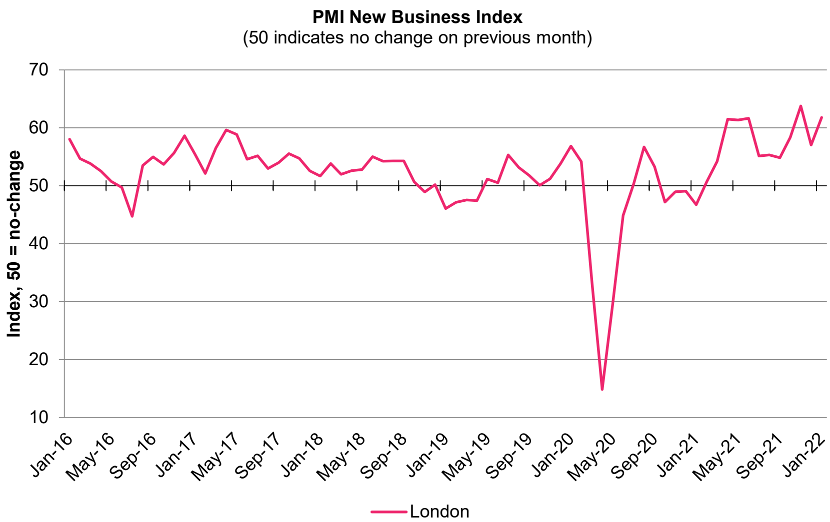
Source: IHS Markit for NatWest
Latest release: February 2022, Next release: March 2022



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

- The PMI new business index in London increased from 57.0 in December to 61.8 in January.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

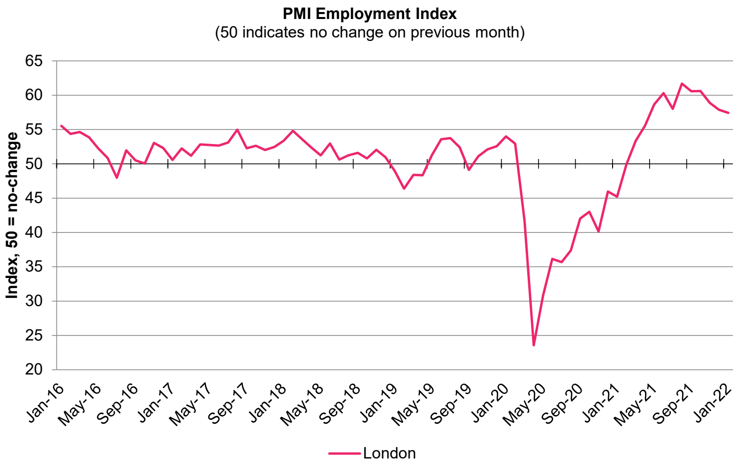
Source: IHS Markit for NatWest
Latest release: February 2022, Next release: March 2022



In January, the sentiment of the PMI employment index in London remained positive for the eleventh consecutive month

- The Employment Index for London decreased slightly from 57.9 in December to 57.4 in January. The index is 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.

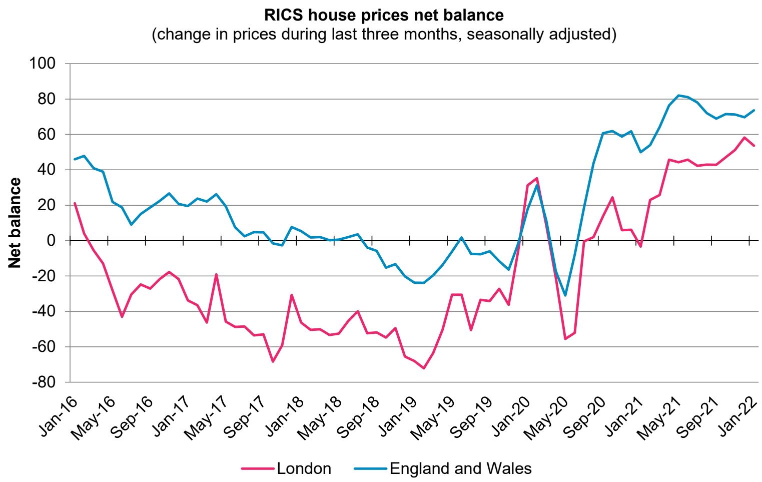
Source: IHS Markit for NatWest
Latest release: February 2022, Next release: March 2022



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

- In January, the net balance of property surveyors in London reporting a rise in house prices was 54, and in December 58.
- For England and Wales, the RICS house prices net balance index increased slightly from 70 in December to 74 in January.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

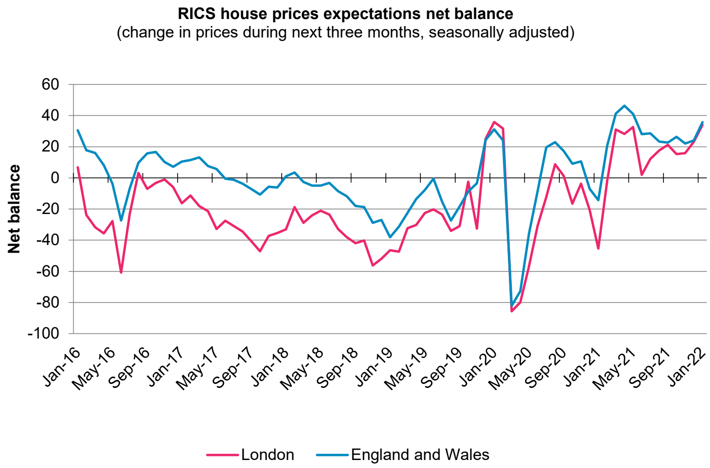
Source: Royal Institution of Chartered Surveyors
Latest release: February 2022, Next release: March 2022



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

- The net balance of house prices expectations in London was 34 in January, higher than the balance of 23 in December.
- Sentiment in England and Wales was 36 in January an increase from 24 in December.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

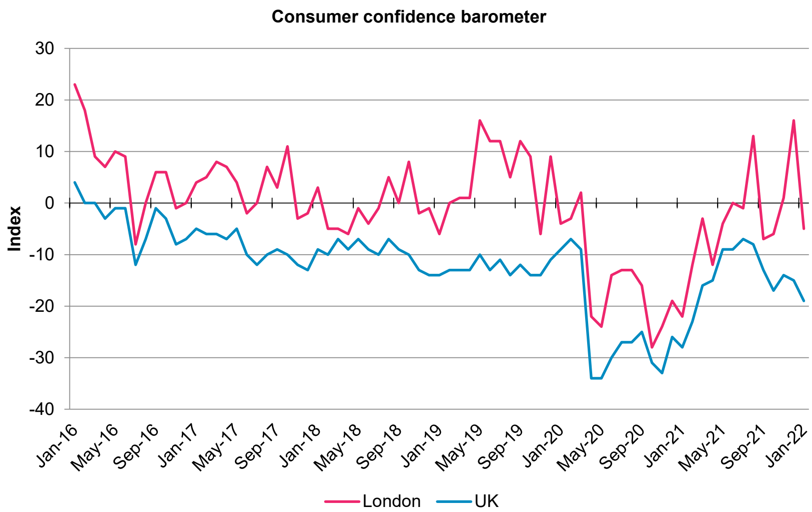
Source: Royal Institution of Chartered Surveyors
Latest release: February 2022, Next release: March 2022



Consumer confidence in London turned negative in January

- In January, the consumer confidence index in London decreased to -5, from 16 in December.
- The sentiment for the UK decreased slightly from -15 in December to -19 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.

Source: GfK
Latest release: January 2022, Next release: February 2022



Identifying green occupations in London

By **Christopher Rocks**, Supervisory Economist

In a new GLA Economics report, we use an O*NET-based[1] classification of green jobs to identify occupations that are likely to be affected by the transition to a low-carbon circular economy. This supplement summarises our approach and highlights some key findings.

Challenges of defining green jobs

Delivering a green economic recovery and reducing greenhouse gas emissions in pursuit of net zero could have a significant impact on London's labour market. A variety of jobs are likely to change as a result of the transition to a greener economy, in both the short term and the longer term.

Identifying which jobs and skills will be affected by these changes, and integrating this information into education and training provision, is a priority for mayoral and national climate policy. This is important for both meeting green skills needs and preparing people for work in a greener economy.

For analysis to inform skills and other policy interventions, it is necessary to adopt working criteria to classify jobs as 'green'. But while existing definitional approaches work well for quantifying and monitoring the impact of the green economy, they face limitations when it comes to understanding how different jobs will be affected by green-biased change[2].

Research also suggests that green skills are likely to sit on a spectrum – ranging from specific requirements in activities directly supporting the transition to a greener economy, to more general skills required across a range of sectors. In this context, it makes sense to adopt a more scaled approach rather than simply defining activities as 'green' or 'not green'.

1 Occupational Information Network (O*NET), a database containing measures of occupational characteristics produced by the United States Department of Labor.

2 For example, they often focus on a somewhat narrow range of green activities or sectors and typically do not map directly on to other standard job classifications.

O*NET-based classification

In a new report, we explore an alternative method for identifying green jobs and skills. Our approach is based on research originally carried out in the United States by Dierdorff and colleagues (2009; 2011) and their O*NET-based classification of green jobs.

This classification, which should be considered complementary to other definitional approaches, is unique in several respects. For example, it:

- Is more occupation-centric than other approaches, identifying jobs which are likely to be affected by a process of 'greening' as opposed to jobs which are inherently green.
- Distinguishes between different categories of green occupations, providing an indication of the likely impact of greening on occupational demand and worker requirements.

To apply this in a UK context we map between US and UK occupational taxonomies, using a bespoke crosswalk based on the LMI for All database.

Identifying and locating green jobs

On this basis, we identify 100 out of 369 UK Standard Occupational Classification (SOC2010) unit groups as occupations subject to greening. This includes:

- 41 green 'increased demand' occupations – where there will be an increase in demand for existing jobs and skills, without significant changes in work or worker requirements (e.g. construction operatives for insulation work or bus and coach drivers).
- 33 green 'enhanced skills' occupations – where there will be significant changes in tasks and skills for existing job roles (e.g. vehicle technicians for work on electrical vehicles or construction managers to apply new green building strategies).
- 26 green 'new and emerging' occupations – where new and emerging job roles will emerge with unique green skill areas (e.g. management consultants focused on sustainability issues or marketing professionals focused on green marketing).

Together these 'green occupations' accounted for over a quarter (28%) of jobs in London in 2019. This figure is higher than other green jobs estimates and is likely to represent an upper bound. The difference is largely down to the way that green jobs are defined. Our approach is relatively broad and includes all the jobs in an occupation affected by greening regardless of whether the work is currently directed towards green activities or tasks.

The rest of this supplement highlights some of the key emerging findings from our report, where more information and further analysis can be found.

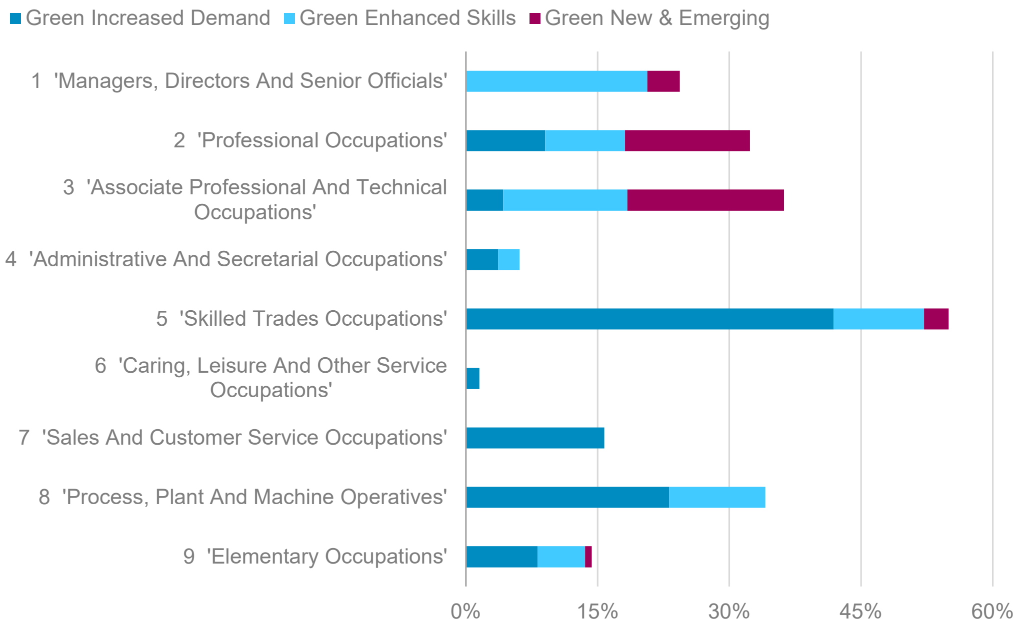
1. The move towards a greener economy will lead to changes across a wide range of sectors and occupations

To give an indication of what type of jobs will be subject to greening, Figure A1 shows the percentage of jobs in green occupations within each SOC major group in London.

It shows that the move to a greener economy will have an impact on a range of different types of jobs. Occupations subject to greening are most concentrated in the skilled trades (55%) and to a lesser extent process, plant and machine operatives (34%) groups – especially green increased demand occupations. This is unsurprising given the likely impacts of greening on (for example) the construction, waste management and energy sectors.

But green occupations also account for around a third of jobs in London's professional and associate professional & technical groups (32% and 36% respectively). This reflects the impact that greening is also expected to have on areas like finance & insurance and professional services, with implications for the skills needed to work in these sectors.

Figure A1: Percentage of jobs by green occupational category by major SOC group Estimated percentage of jobs, London, 2017-2019



Source: ONS APS 2017-2019

2. There is a large degree of variation in skills and pay levels between green occupational categories

Reflecting this overarching occupational and sectoral pattern, occupations subject to greening also cover jobs requiring both lower-level and higher-level skills and qualifications, with varying levels of pay and working conditions.

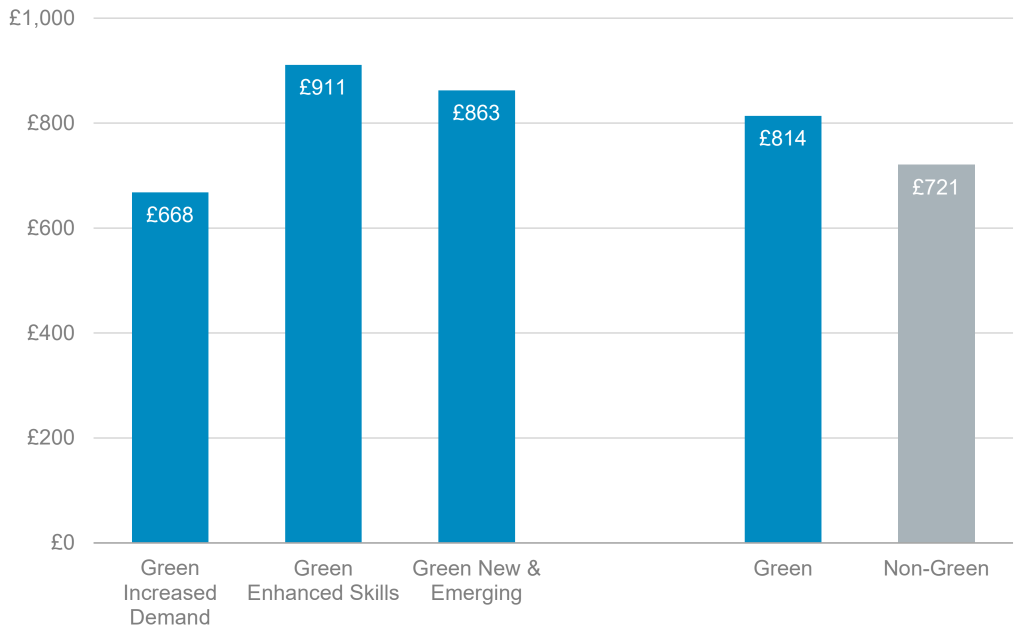
Overall, jobs holders in green occupations in London are relatively highly qualified[3]. Yet there are also major differences between (and within) green categories. For example, only 43% of job holders in green increased demand occupations held a degree level qualification in 2017-2019, compared to 70% of job holders in green new & emerging occupations.

This variation is also reflected in pay levels. Figure A2 shows indicative estimates of median weekly pay for full-time employee jobs in different green categories[4]. It shows a clear disparity in average pay levels between green jobs – ranging from £668 a week for green increased demand occupations, to £911 a week for green enhanced skills occupations.

3 Around 58% of job holders in occupations subject to greening held qualifications at degree level in London in 2017-2019 – five percentage points above the average for 'non-green' occupations (53%).

4 Note these weighted estimates are based, in part, on modelled pay estimates at the London level and should only be considered indicative of trends.

Figure A2: Gross weekly pay (£) for all employee jobs
London, weighted average, 2019 (includes imputed pay estimates*)



*Source: GLA Economics analysis of ONS ASHE 2019. *Note: values imputed for 117 out of 369 4-digit occupations – this is done by applying the ratio of pay between 2-digit and 4-digit occupations at the UK level to 2-digit occupations in London.*

Our full report also looks more closely at other dimensions of jobs quality such as temporary employment and training. As with pay levels, the key point to take away is that the quality of jobs is likely to vary between (and within) different green occupational categories.

3. Skills-related difficulties are currently highest in green increased demand occupations, although this could change over time

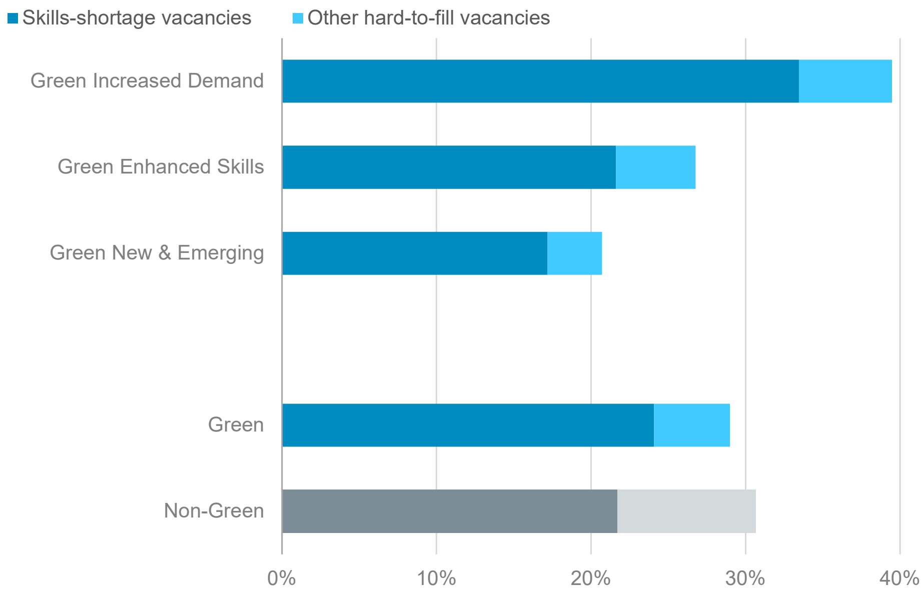
To see where skills challenges are currently most significant in relation to green occupations, we also turn to London level data from the Employer Skills Survey 2019. On this basis, Figure A3 shows the proportion of vacancies reported as hard-to-fill due to skill shortages or other reasons in 2019 based on estimates for each green occupational category[5].

A stark picture emerges. Although the level of qualification attainment and pay in green increased demand occupations is lower on average, the rate of hard-to-fill vacancies is likely to be higher than for other green categories or non-green occupations. We estimate that around a third of vacancies in green increased demand roles were hard to fill due to skills-related reasons in 2019 and another 6% of vacancies for other reasons. This reflects the long-standing difficulties reported by London employers when recruiting for skilled trades positions (e.g. electricians, construction & building trades, carpenters & joiners).

But while recruitment issues are currently less acute in other green occupational categories, it is precisely these jobs that are expected to see more significant changes in work and worker requirements as a result of greening. These changes could lead to an increase in skills-related challenges in other areas if education and training provision doesn't keep pace.

5 We access data for 2019 at the 2-digit level of the SOC framework via the LMI for All API. Robust data is unavailable at the level of 4-digit SOC codes, so these weighted estimates should only be considered indicative.

Figure A3: Vacancies that are hard-to-fill due to skills shortages or other reasons
Percentage of vacancies, London, 2019, weighted estimates



Source: GLA Economics analysis of Employer Skills Survey data, accessed via LMI for All API. Note: weighted estimates based on hard to fill vacancy data for 2-digit SOCs.

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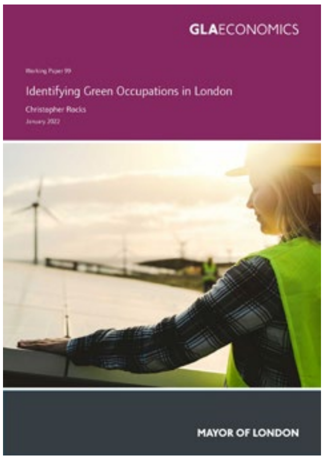

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the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

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