GLAECONOMICS

London's Economy Today

Issue 230 | October 2021

Budget and Spending Review

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Yesterday, the Chancellor presented the October 2021 Budget and Spending Review, with both taxes and public spending set to rise firmly in the coming three years. While some of the most eye-catching policies had been previously announced (rising National Insurance Contributions) or revealed in the days before the speech (ending the public sector pay freeze), there were still some surprises. These ranged from extending existing policies, like cancelling the rise in fuel duty for another year, to comprehensive overhauls, like simplifying the alcohol duty system, to the surprise announcement of a larger envelope for overall departmental spending increases to £150 billion a year in cash terms by 2024-25.

The unexpectedly strong increase in public spending comes on the back of hefty upward revisions to economic and fiscal forecasts from the Office for Budget Responsibility (OBR). The OBR now expects real GDP to grow 6.5% in 2021, up from 4% in their March outlook, and with growth expected to hold at 6% in 2022 before returning to more normal levels, while the long-term scarring effect of the pandemic on UK GDP has been eased to 2% from a previous estimate of around 3%. Combined with a sharp increase in forecast inflation and the budget's tax increases, the OBR suggested that the Chancellor had an extra £50 billion per year in fiscal headroom. With the budget deficit set

Also in this issue

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

to roughly halve both this year and next, by 2024-25 borrowing is set to be nearly £12 billion lower than expected even before the pandemic. This leaves debt, which was previously expected to climb to around 110% of GDP, stabilising below 100% of GDP this year and then falling gently across the forecast period.

With this forecast fiscal windfall in hand, the Chancellor opted to significantly increase spending across Whitehall, with average real terms spending increasing 3% in the coming three years. This included an estimated real-terms increase of 3% a year in core spending power for local authorities and a significant spending increase for the wider Department of Levelling Up, Housing and Communities' local government mandate. Other highlights on the spending side included real average annual growth in the NHS day-to-day budget of 3.8%, £4.7 billion for the core schools budget bringing per-pupil spending in England back to 2010 levels, £3.8bn of extra spending on skills by 2024-25 and a 2.9% increase in public sector gross investment, including pre-announced infrastructure projects for regions outside London. On the revenue side, there was tax relief for cultural venues, R&D investment, HGV operators and domestic flights, while the bank corporation tax surcharge stayed in place and a new air passenger duty band was introduced for long-haul flights. There were also announcements on the labour market, with a well-telegraphed rise in minimum wages seeing the National Living Wage rising to £9.50 an hour, while a surprise came in the form of reducing the Universal Credit (UC) taper rate from 63% to 55%.

There were relatively few London-specific announcements, though some areas within the capital are set to benefit from levelling up and regeneration schemes. Six areas, including Brent and Tower Hamlets, are set to benefit from almost £65 million local infrastructure improvements through the Levelling Up Fund. Just over £3 million of the estates regeneration share of the Brownfield Land Release Fund will go to London areas. London will also get around a third of the spending from the Affordable Homes Fund, will see five Community Diagnostic Centres and some portion of the 10 new hospitals being built in London and the South East. The UC taper reform will also help some of the 390,000 Londoners currently receiving UC while employed, though it will not benefit the 600,000 unemployed Londoners receiving UC.

The Chancellor also set out new fiscal rules, including a falling debt to GDP ratio within three years, no borrowing to fund day-to-day spending within three years, public investment at no more than 3% of GDP and welfare spending conforming to an agreed cap. The OBR suggested that the budget and spending review were on track to meet all these targets (Figure 1) but noted that the headroom was around a sixth of the average forecast error for the debt to GDP ratio. With acute risks to the forecast for inflation and interest rates, it remains to be seen if the forecast-based fiscal windfall that the budget relied upon will ultimately materialise.

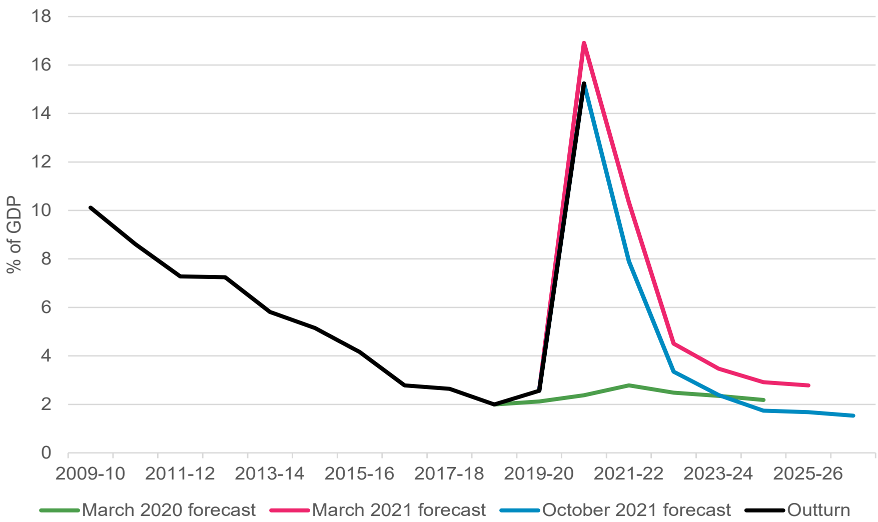


Figure 1: Public sector net borrowing and OBR forecasts

Source: Office for Budget Responsibility

Higher inflation ahead, despite new data's false peak

September's inflation data appeared to offer a reprieve from growing price pressures, but this is likely to prove a false peak, with inflation set to rise further in the coming months. Data from the Office for National Statistics (ONS) showed that Consumer Price Index (CPI) annual inflation eased to 3.1% from 3.2% in August, but a key part of the decline was a softer contribution from restaurant prices due to the timing of the Eat Out to Help Out scheme in 2020. Without this distortion, August inflation would have been 2.7%, meaning September's figure is better seen as part of a continued acceleration in price pressures.

In September, the biggest contribution to annual inflation came from transport prices, which were up more than 8% year-on-year (y/y). Once again, this was a mixture of higher fuel prices leading to 8.6% y/y inflation in operating costs and the ongoing semiconductor shortage pushing up the cost of purchasing vehicles to an even faster 9.6% y/y. The challenge faced from supply chains can be seen in other data, with the fortnightly ONS business survey showing 37% of importers reporting moderate or severe disruptions in October and the London PMI gauge for input prices hitting a record high of 70.6 in September.

Following the Bank of England's (BoE) August projection that inflation would peak at around 4% y/y in the later part of this year, recent communications suggest concerns around inflation are growing at the Bank. This may mean a higher projection in the November Monetary Policy Report, which would increase pressure to raise interest rates. Outside the Bank, the OBR now expects inflation to peak at 4.4% in Q2 2022, while the Centre for Economics and Business Research (CEBR) forecast UK inflation to peak at 5.7% y/y in November – the highest since the early 1990s. In recently commissioned research, CEBR also used consumption data to rebalance the UK CPI components to match the mix of spending in London. Based on these calculations, CEBR expects London to see even higher inflation of over 6% late this year (Figure 2).

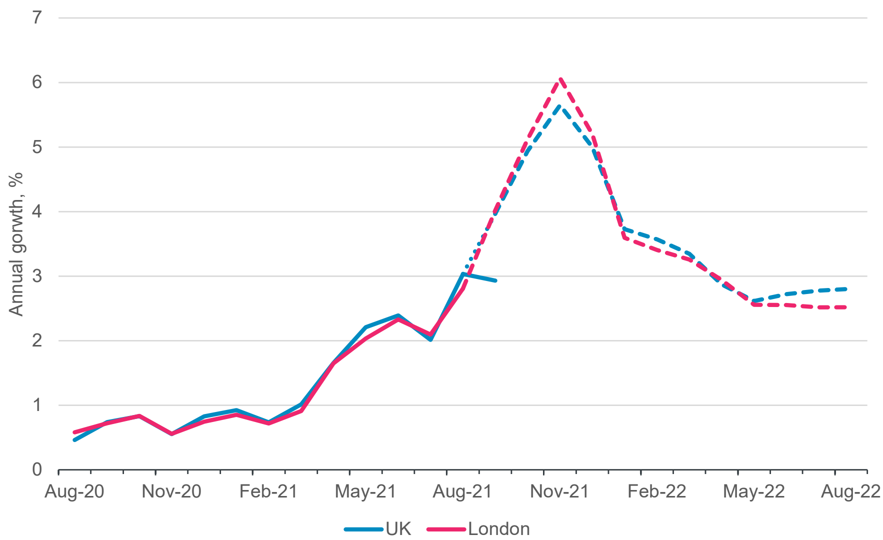


Figure 2: CEBR projections of UK and London inflation across the coming year

Source: CEBR, ONS; Note: data refers to CPI including owner occupiers' housing costs (CPIH) and projections were made before the release of September data.

While supply chain challenges may well persist for some months with periodic localised Covid outbreaks in major ports or production facilities around the world lengthening the problem, the consensus among commentators is that these will ease over the coming year. There are several reasons for this expectation. Firstly, higher prices should prompt suppliers to ramp up production, easing shortages. This may take longer in the case of particular industries, such as the highly-concentrated semiconductor industry. Secondly, market signals suggest that shipping costs should ease from early next year. Thirdly, some early examples of tight supply chains raising costs have already unwound, with one example coming from US lumber prices, which have eased from peaks in May. Fourth, global demand for goods is also likely to normalise as the pandemic comes under control. However, it is worth acknowledging uncertainty around these points. The strength of supply chain difficulties has already come as a surprise to most forecasters, including the Federal Reserve. Risks remain to the outlook, including persistent COVID-19 outbreaks disrupting shipping, a resurgence of tensions between the US and China disrupting technology supplies and Brexit raising costs for importers.

Rising wage costs offer risk of longer-lasting inflation

Beyond supply challenges, there are some signs that inflation is becoming entrenched in expectations, and that wage pressures may be rising ahead of productivity growth. Both these trends could make the acceleration of prices more permanent. Citi and YouGov polling points to rising year-ahead inflation expectations, up 1 percentage point (ppt) to 4.1% in September. Meanwhile the ONS vacancies survey found in September that around one in eight businesses across all industries have found vacancies harder to fill than usual, and BoE data suggests that this is leading to higher pay awards. The Q3 2021 Agents' Summary of Business Conditions survey saw the index for recruitment difficulties reach its highest level since the early 2000s, while the index for labour costs per employee hit a record level (Figure 3).

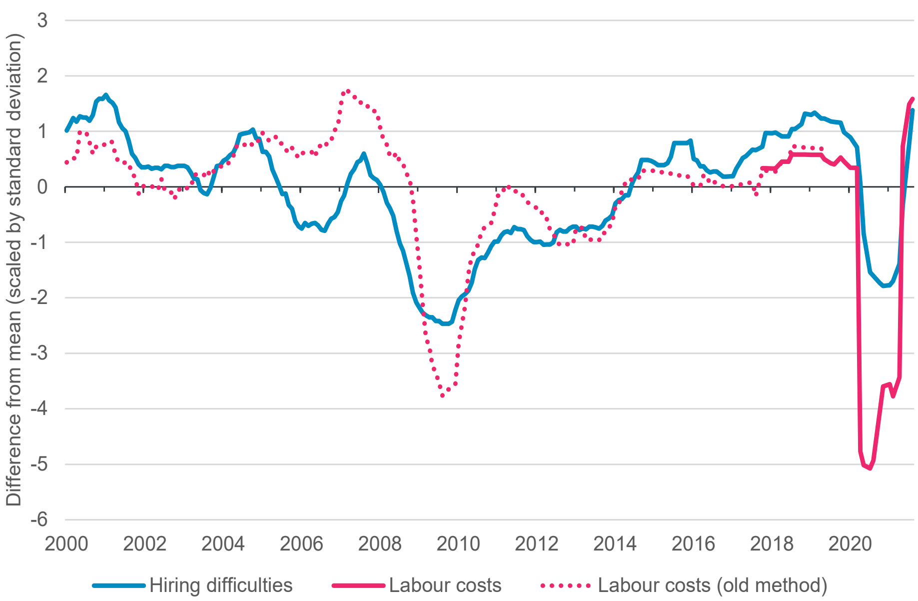


Figure 3: Bank of England recruitment difficulties and labour cost indexes, standardized

Source: Bank of England, GLA calculations

At a sectoral level, vacancies are also generally higher where there were large numbers of furloughed workers towards the end of the scheme. Given we might otherwise expect these workers to be rehired, leaving no need for a posted vacancy, this positive correlation points to skills mismatches or geographical mismatches between available labour and vacancies. This suggests a reallocation of labour within and between sectors ahead, which may push up wage growth as employers try to attract workers to fill specific workforce gaps.

With furlough coming to an end and the economy continuing to recover, labour shortages are expected to ease in the medium term. Institute for Fiscal Studies (IFS) analysis also finds that a majority of jobseekers face sharp competition for each vacancy, so higher pay awards may be concentrated in areas of scarce skills. These points are consistent with the fact that real wages are up less than 2% in annualized terms compared with 2019. However, in this area, as with supply chain risks, there is uncertainty around the outlook. If skill shortages are more structural, perhaps due to home working-related geographical reallocation of services or lower immigration, inflationary wage pressures ahead of productivity growth may prove more persistent.

Growth in UK output recovers

Outside of concerns around inflation there is evidence of the continued bounce back of the economy. Thus, the ONS first estimate for GDP growth in August was 0.4%, up from a revised estimate for July of -0.1%. Output remains 0.8% below its peak in February 2020. The largest contributions to growth were in Accommodation and food services at 0.28ppt, Arts, entertainment and recreation at 0.13ppt, and Information and communication at 0.13ppt. There was, however, an offsetting fall in Health activities of -0.42ppt. The lifting of lockdown restrictions in July would have been of particular benefit to the first two sectors.

Business confidence remained positive in August, as apparent from the indicators section later in this report. Although, as discussed above, there are downside risks to growth in the coming months from supply chain and labour market constraints curtailing activity and feeding into inflation. The possible re-introduction of restrictions as COVID-19 cases rise is also a risk, while the latest ONS retail sales show that sales volumes fell by 0.2% in September and have fallen each month since April when non-essential retail re-opened. Indicative of the shift in spending towards goods they are still 4.2% higher than their pre-pandemic February 2020 levels.

End of the furlough scheme may have had a soft landing

The latest ONS data shows that London and UK unemployment rates continued to fall in the three months to August, as reported in the indicators section. For the UK, in July to September, the estimated number of vacancies recorded was at its highest level since records began, with the majority of industries growing on the quarter. In the same period there were 3.7 vacancies for every 100 employee jobs, also a record high.

One concern, particularly for London, is that the Coronavirus Job Retention Scheme (the furlough scheme) ended on 30 September. Over 2021 in the months to August, people on furlough in London fell by nearly two-thirds, and across the UK by nearly three-quarters. The return of people to work has made a significant positive contribution to the economy, alongside some of the out-of-work finding jobs. At the same time, there were around 263,000 London residents on furlough at the end of August whose future was unclear. With furlough numbers declining more rapidly in the rest of the country, London’s share of UK furloughed employments had risen from 15% to 20% over the course of the year (Figure 4).

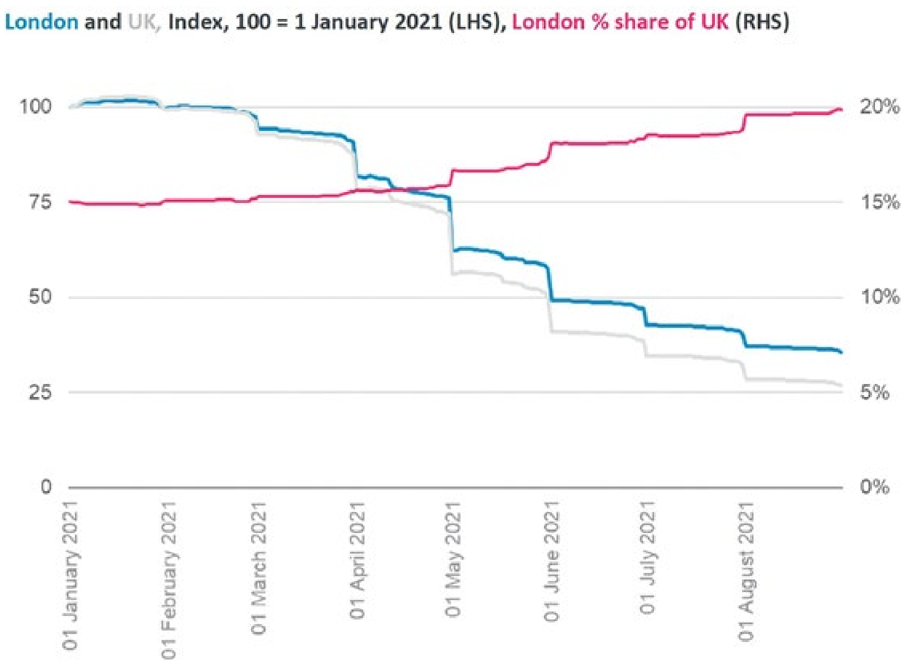


Figure 4: Furloughed employments, London and the UK, January – August 2021 as index numbers, and London share of UK employments

Source: GLAE calculations based on HMRC data on CJRS. Note: August 2021 data is provisional

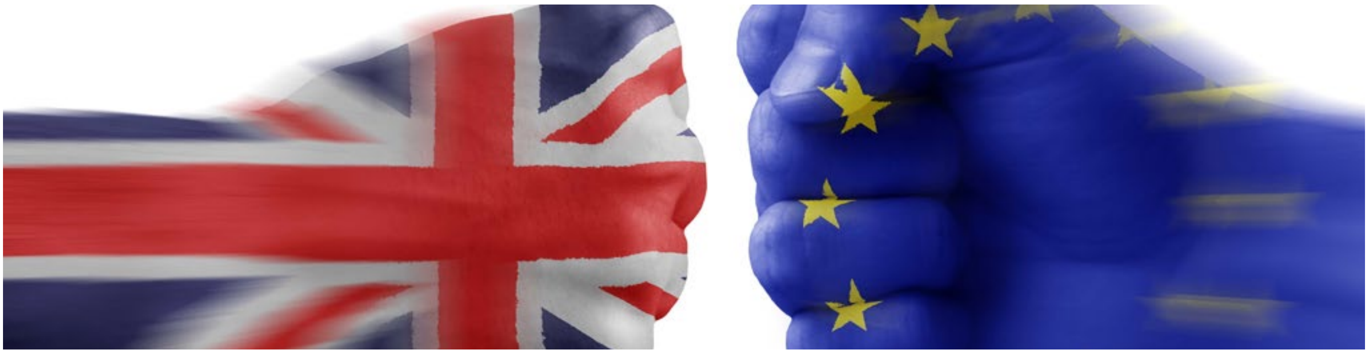
Positively, the evidence is that larger businesses have predominantly taken back staff on furlough. The number of employers planning 20 or more redundancies in September remained close to record lows. Just over 200 firms in Great Britain notified the Insolvency Service of their plans with a total of slightly under 14,000 jobs at risk. Major travel and transportation companies reported not making redundancies because of the end of the furlough scheme despite making extensive use of the scheme. This includes British Airways, Easyjet, Jet2, Ryanair, Tui, Virgin Atlantic, Hays Travel, Airbus, DHL, air traffic controller NATS, baggage handler Swissport, as well as Gatwick, Heathrow, Manchester and Stansted airports.

What has actually happened in smaller businesses is not clear at the present time, but workers at smaller employers may not have been so fortunate. In January, employers with under 20 employees accounted for 40% of furloughed employees, but this proportion had risen to 60% by the end of August.

There are concerns for the small business sector

The Bank of England BoE has published an updated assessment of the financial stability of the UK and its corporate sector. It judges that UK corporate debt vulnerabilities have increased moderately over the pandemic so far. It has, though, been concentrated in some sectors and types of businesses, in particular in Small and Medium-sized Enterprises (SMEs). Debt held by SMEs increased by 25% between December 2019 and March 2021, compared with less than 3% for large enterprises. The BoE estimates that around 757,000 of around 2 million SMEs now hold debt, and that the share of SMEs with debt has more than doubled over the pandemic. In summary, the BoE notes, "as the economy recovers and government support, including restrictions on winding up orders, falls away, business insolvencies are expected to increase from historically low levels".

Tensions escalate between the UK and the EU



Almost three months after the UK demanded far-reaching reform of the Brexit deal's trading arrangements for Northern Ireland, (the protocol), the European Commission proposed more limited changes. The UK wanted to eliminate most checks on goods going from Great Britain to Northern Ireland, while the EU has made proposals which could end as much as 80% of current checks. The UK has rejected the proposals as not going far enough, and not meeting its demand for an end to the role of the European Court of Justice in oversight of the Northern Ireland protocol. If the UK and the EU fail to find an accommodation, and the dispute escalates, there is a risk of a trade war with each side imposing tariffs on goods imports.

UK services trade with the world, and the EU, has fallen since the start of the pandemic reflecting the effects of restrictions on activities. The UK left the Single Market at the beginning of this year after the conclusion of the transition period, and restrictions on trade with the EU came into effect. Services trade, both exports and imports, continued to fall both with the EU and beyond suggesting that the effects of the pandemic continue to have the most effect. For example, services associated with travel and transport have fallen this year. The aggregate trend seems to have stabilised, though, in Q2 of this year. Curiously, it is service imports from the EU which have fallen most (Figure 5).

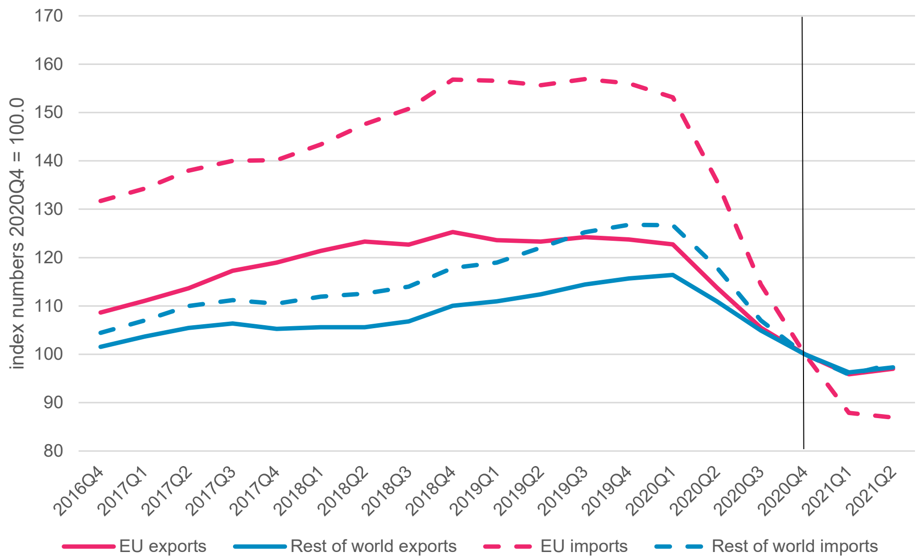


Figure 5: Trend in UK exports and imports, after inflation, to the EU and the rest of the world, annual moving average, 2016 Q4 to 2021 Q2

Source: Source: ONS UK trade in services: service type by partner country

Note: Inflation measure used is the GDP deflator

The global recovery is becoming more imbalanced

The International Monetary Fund (IMF) in its latest World Economic Outlook reports that the momentum behind the global recovery has weakened because of the pandemic – so far, there has been close to 5 million deaths. Global growth has been revised down marginally to 5.9% in 2021 (from 6.0% in July), and is unchanged for 2022 at 4.9%. Expected UK growth has also been revised down in 2021 to 6.8% (from 7.0%) and marked slightly up in 2022 to 5.0% (from 4.8%).

The IMF reports, though, a divergence in economic prospects across countries. There are more difficult near-term prospects for advanced economies, in part due to supply disruptions. The outlook for low-income developing countries has deteriorated considerably due to worsening pandemic dynamics. Partially offsetting these changes, projections for some commodity exporters have been upgraded on the back of rising commodity prices. These economic divergences are a consequence of large disparities in vaccine access and policy support.

Business confidence in London remains positive.

The indicators below show that business confidence in London has remained positive in Q3. The latest Capital 500, the Quarterly Economic Survey by the London Chamber of Commerce and Industry provides some more granularity. Two fifths (39%) of firms expect profitability to increase over the coming 12 months, while the share expecting a decline shrunk from 25% to 17%. As COVID-19 restrictions were lifted the cashflow of businesses jumped sharply. 26% of businesses reported an increase in cashflow in Q3 compared with the previous three months, similar to the proportion in the Q2 survey. The proportion reporting a decrease fell from 33% in Q2 to 27% in Q3. More than two-fifths (43%) of firms said that they were operating at full capacity in Q3, a two-year high and back in line with the pre-pandemic average. It may be worth noting that fieldwork for the survey was completed prior to the latest round of gas price increases, and the shortage of tanker drivers became apparent.

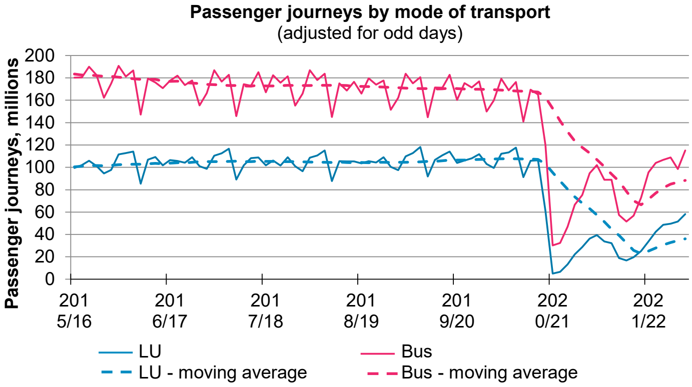
GLA Economics will continue to monitor these challenges over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport increased going into Autumn

- 173.3 million passenger journeys were registered between 22 August 2021 and 18 September, 23.2 million journeys more than in the previous period (25 July – 21 August).
- In the latest period, 58.2 million of all journeys were underground journeys and 115.2 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 121.2 in the previous period to 124.4 in the latest period.

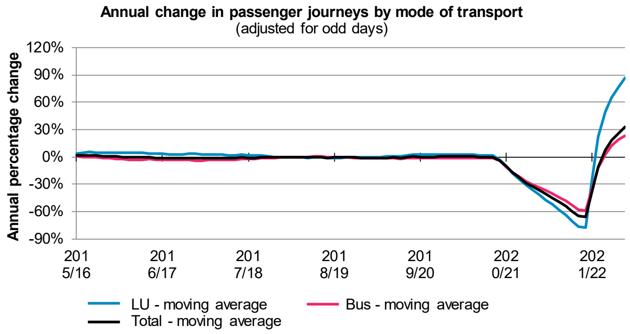
Source: Transport for London
Latest release: October 2021, Next release: November 2021



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

- The 13-period moving average annual growth rate in the total number of passenger journeys was 32.8% in the period 22 August to 18 September, up from 26.5% in the period 25 July – 21 August.
- The moving average annual growth rate of bus journeys increased from 18.8% to 23.5% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 76.9% to 86.4% between those periods.

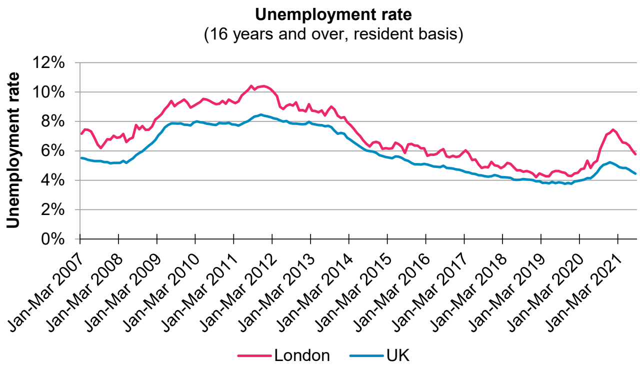
Source: Transport for London
Latest release: October 2021, Next release: November 2021



London's unemployment rate fell to 5.8% in the quarter to August 2021

- Around 284,000 residents 16 years and over were unemployed in London in Jun - Aug 2021.
- The unemployment rate in London was 5.8% in that period, down from 6.5% in the previous quarter, March – May 2021, which was one of the highest rates in seven years.
- The UK's unemployment rate also decreased, from 4.8% in March - May to 4.5% in Jun – Aug 2021.

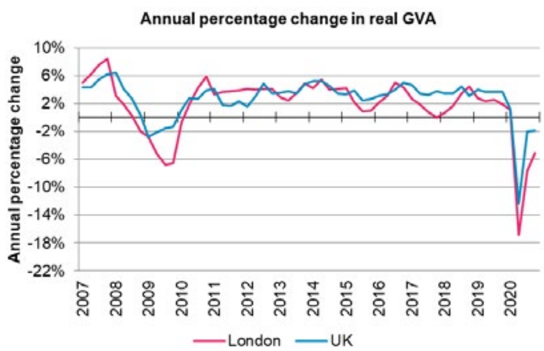
Source: ONS Labour Force Survey
Latest release: October 2021, Next release: November 2021



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

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

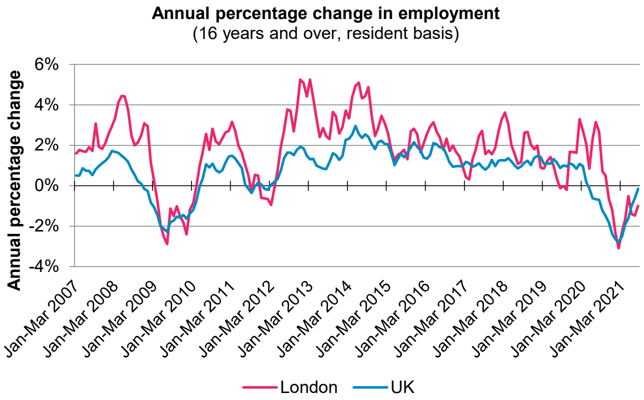
Source: ONS and GLA Economics calculations
Latest release: August 2021, Next release: November 2021



London's year-on-year employment growth rate was 1.0% lower in the quarter to August 2021

- Around 4.6 million London residents over 16 years old were in employment during the three-month period of Jun - Aug 2021.
- The rate of employment growth in the capital was -1.0% in the year to this quarter, compared with -0.5% in the previous quarter to May 2021.
- The decline in the UK's employment annual growth rate was -0.2% in the most recent quarter, and -1.6% in the previous quarter.

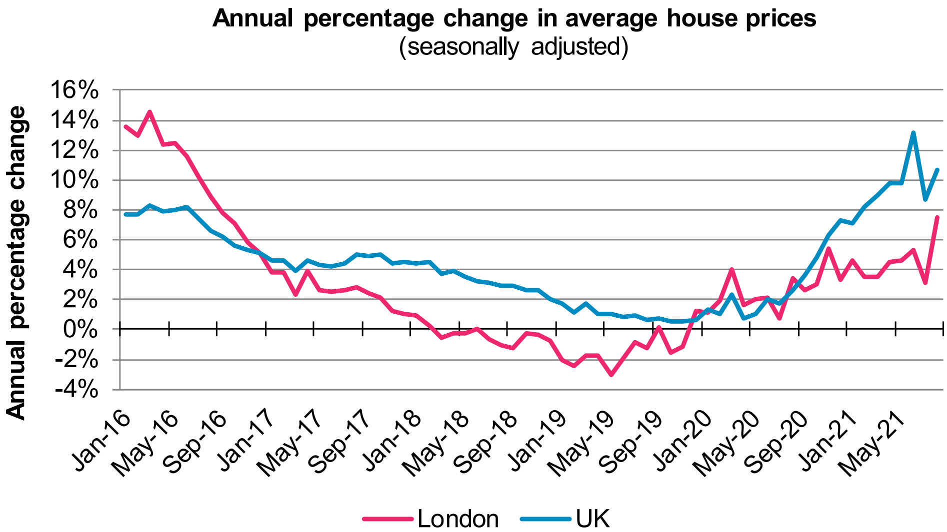
Source: ONS Labour Force Survey
Latest release: October 2021, Next release: November 2021



House prices growth in London picked up again in August

- In August 2021, the average house price in London was £521,000 while for the UK it was £260,000.
- The annual growth rate in average house prices in the capital was 7.5% in August, slightly higher than in previous months.
- Average house prices in the UK rose by 10.7% in annual terms in August, more than the July rate of 8.7%.
- The stamp duty holiday may be a contributory factor to rising house prices.

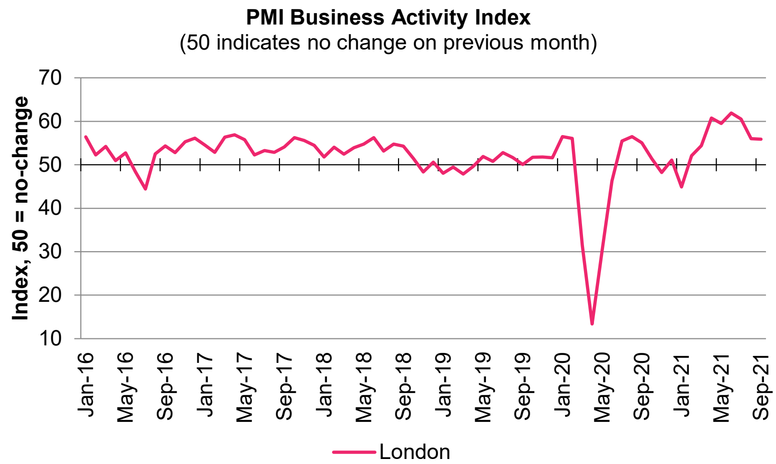
Source: Land Registry and ONS
Latest release: October 2021, Next release: November 2021



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

- The business activity PMI index for London private firms dropped slightly from 56.0 in August to 55.9 in September.
- 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.

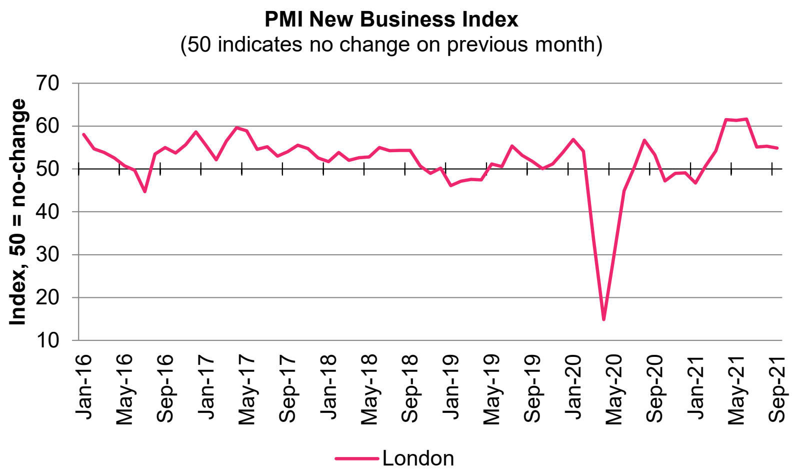
Source: IHS Markit for NatWest
Latest release: October 2021, Next release: November 2021



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

- The PMI new business index in London dropped slightly from 55.3 in August to 54.9 in September. The eight months from February onwards are the first time there has been positive sentiment since September 2020.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

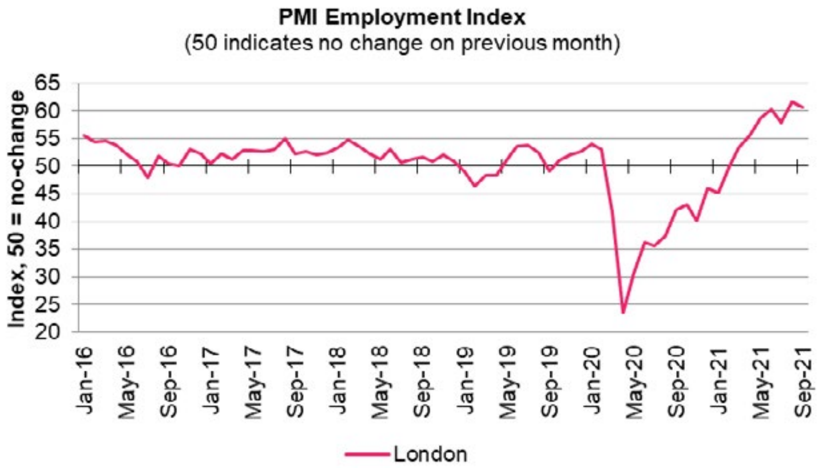
Source: IHS Markit for NatWest
Latest release: October 2021, Next release: November 2021



In September, the sentiment of the PMI employment index in London remained positive for the seventh consecutive month

- The Employment Index for London decreased slightly from 61.7 in August to 60.6 in September. Prior to March 2021, the last time sentiment was positive was in February 2020. The index is at near its highest level since records began in 1997.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

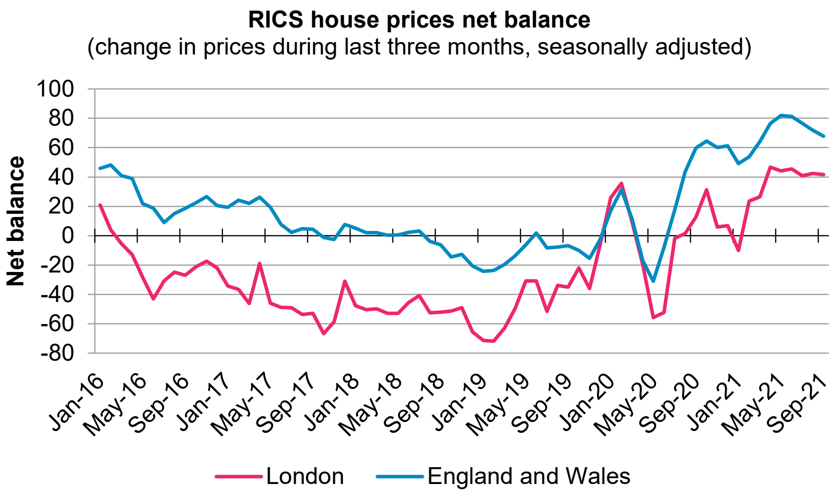
Source: IHS Markit for NatWest
Latest release: October 2021, Next release: November 2021



The net balance of property surveyors reported no change in house prices in London in September

- In September, the net balance of property surveyors reporting a rise in house prices was 42, the same as in August.
- For England and Wales, the RICS house prices net balance index dropped slightly in September to 68 from 72 in August.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

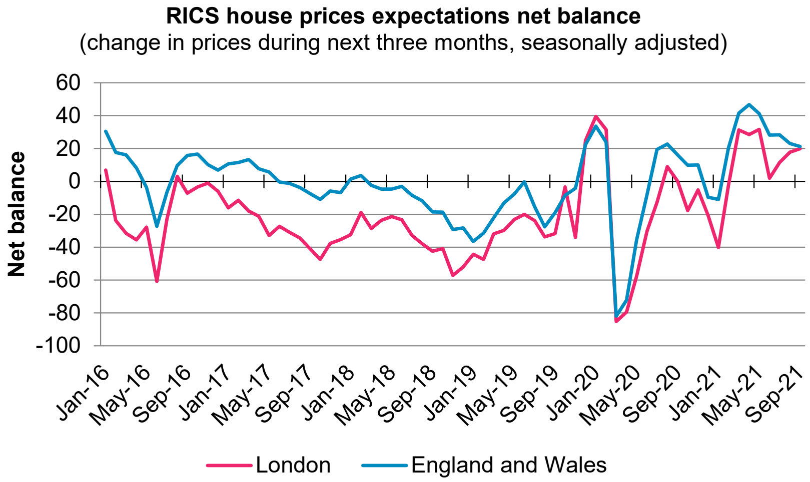
Source: Royal Institution of Chartered Surveyors
Latest release: October 2021, Next release: November 2021



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

- The net balance of house prices expectations was 20 in September in London, up on the figure for August of 18.
- Sentiment in England and Wales was 21 in September a slight fall from 23 in August.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

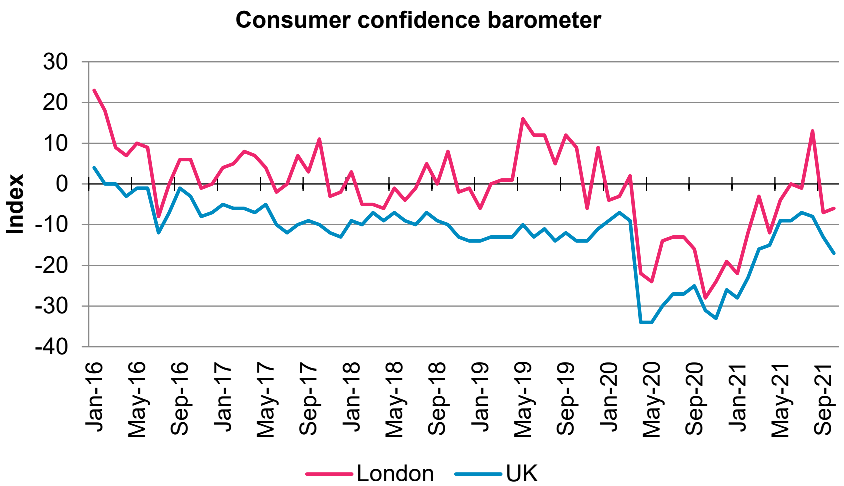
Source: Royal Institution of Chartered Surveyors
Latest release: October 2021, Next release: November 2021



Consumer confidence in London stayed negative in October

- In October, the consumer confidence index in London increased very marginally to -6, from -7 in September.
- The sentiment for the UK decreased from -13 in September to -17 in October. 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: October 2021, Next release: November 2021



GLA 2020-based population and household projections

By **Wil Tonkiss**, Senior Data Scientist

On 30th September the GLA Demography Team published the 2020-based population and household projections[1]. Most of our projections are updated annually, incorporating the latest data as it becomes available. This round of projections comprises both variant trend projections, based on the continuation of past trends in population change, and housing-led scenario projections which incorporate considerations of future housing delivery into the projection process. The projections take the ONS 2020 mid-year estimates (in which London's population is 9.002 million) as their starting point and project to a horizon of either 2050 or 2041 depending on the projection.

Trend projections

Trend projections are recommended for use in longer-term strategic planning at higher spatial levels (i.e., regional/national). The 2020-based trend projections include four main variants: two projections which bound a central range, and two which bound a wider range. The *Central Range* is consistent with a continuation of past observed migration trends, while the *Wider Range* reflects possible futures in which there has been a step change in international migration. The difference between the variants is in the assumptions about future migration behaviour, both internationally and domestically.

- The Central Range spans a projected population of between 10.32 and 10.71 million in 2050.
- The Wider Range spans a population of between 9.55 million and 11.46 million in 2050.

Housing-led projections

Housing-led projections explicitly incorporate assumptions about future housing capacity. They are recommended for most uses at borough, MSOA (Middle layer Super Output Area) or ward level. The 2020-based housing-led projections include three scenario projections based on different levels of future housing delivery. They are the Identified Capacity scenario which uses a development trajectory adapted from the Strategic Housing Land Availability Assessment (SHLAA); the Past Delivery scenario which assumes

1 https://data.london.gov.uk/demography/population-and-household-projections/

average of delivery over the last eight years will continue, and; the Housing Targets scenario in which the London Plan target of 52,287 units is delivered in each year of the projection. In producing the projections no assumption has been made about the likelihood of these delivery scenarios coming forward - the projections are designed to illustrate how the population might change under the conditions described in the scenarios.

Due to limited information about potential development sites in the very long term, the housing-led projections have a projection horizon of 2041 (Figure A1).

- The Identified Capacity scenario projection has a population of 9.965 million in 2041.
- The Past Delivery scenario has a population of 9.655 million in 2041.
- The Housing Targets scenario has a population of 10.395 million in 2041.

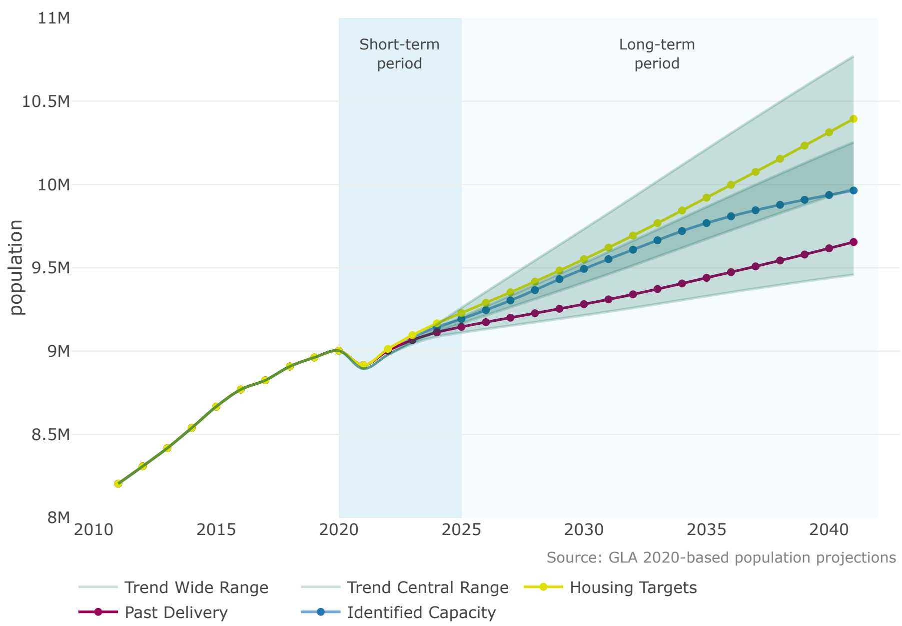


Figure A1: Total projected population, London

Expert Panel

In setting the assumptions for the previous round of projections (the 2019-based) the GLA sought the guidance of an expert panel of academics and professional demographers. The panel were consulted on the economic and social drivers of population change in both the short-term and long-term, as well as the specifics of component trajectories. Their input was key in shaping the assumptions which formed the 2019-based variant projections.

The same panel of experts were consulted for the 2020-based projections. The Panel advised on revisions to the migration assumptions and aspects of the modelling approach, such as how quickly trends might take to return to their long-term levels.

Trend projections: Short-term assumptions

The initial short-term period of the projections (up to 2025) accounts for the on-going impacts of the COVID-19 pandemic and Brexit on London's population. Assumptions about migration patterns during the first two years are consistent across all variants. Over the following two years (2023-2024) migration assumptions diverge as levels of both international and domestic migration transition incrementally towards the long-term values set for each variant. These long-term levels come into effect in 2025.

The impacts on population of these short-term migration assumptions, along with the increase in mortality from COVID-19 are the key drivers of population change in the short-term. The population in the 2020 base year for London is 9.002 million. This falls by 108 thousand over the year to 2021. Then, from a low of 8.895 million the population grows again as migration patterns move towards their long-term levels.

Trend Central range

The two projections bounding the Central Range each use the same assumptions about international migration in the longer-term (based on an average of ten years' observed data). Net international migration to London over the past 20 years has remained relatively stable within a range of 69,200 and 126,400. The ten-year average (2010-2019) used in the modelling is 95,500 persons. More recent data are excluded from the averaging due to concerns about how ONS have distributed recent estimates of international migration.

The difference in the Upper and Lower bound projections of the Central Range is in the assumptions about future rates of domestic migration. The Upper Bound uses a ten-year average (2011-2020) of past migration patterns. This provides an average based on migration behaviour over an economic cycle and so is perhaps the more conservative variant. The Lower Bound uses a five-year average (2016-2020) which results in greater levels of migration. As the balance of domestic migration at the London level is for greater outflow than inflow, a system in which the volume of migration is increased will lead to greater net out migration from London and consequently lower population growth.

The Central Upper projection projects annualised growth of 60,400 per year over the period to 2050 while the Central Lower projects 47,500. This is in the context of average growth of 94,100 per year in London over the last decade.

Trend Low population variant

The Low Population variant provides an indication of how London's population might change in response to a sustained reduction in international migration while holding domestic net migration at relatively high levels.

This variant assumes a level of net international migration substantially below that observed over the last 20 years for the duration of the projection. Such a scenario might be consistent with a decline in the attractiveness of the UK as a destination for international migrants and/or a shift to more restrictive migration policies.

Domestic migration rates in the Low Population variant are held at the ten-year average. These domestic migration rates can be considered relatively high in the context of lower levels of international migration. In the long-term, total net migration (the sum of international net and domestic net migration) in this variant ranges between -32 thousand and -36 thousand per year meaning growth in the population is largely the result of natural change rather than migration.

Annualised growth over the 30-year projection period 2021-2050 is 21,700 persons per year in the Low Population variant.

Trend High population variant

The resilience of long-term international migration flows to London across very different social and economic conditions has enabled London's population to grow consistently over the last two decades at an average of 88,000 persons per year.

This variant assumes a level of net international migration at the highest levels of those observed over the last 20 years for the duration of the projection. Such a scenario is considered necessary to account for the possibility of sustained growth over the projection period in spite of current conditions.

Domestic migration patterns in the High Population variant are based on an average of the last ten years' rates. As domestic outflows from London have tended to rise in line with international inflows, these rates can be considered as relatively low in the context of the higher international migration flows assumed in this variant.

The High Population variant is the only projection which has positive net migration (the sum of domestic and international flows) for the entire projection period. Total net migration peaks at 41 thousand persons before falling to two thousand at the end of the projection.

The impact on the population trajectory growth is more akin to that seen in recent decades - the High Population variant projects average annual growth of 85,500 persons per year.

Working age population

The size of the working age population (16-64) in London is heavily dependent on the level of migration. High net out migration, as seen in the Low Population variant, leads to a decline in the working age population over time. In the High Population variant, which projects low net out migration, the working age population grows over the period to 2050 (Figure A2).

The Central Range projects growth up to 2040 and then a levelling-off/slight decline in the last decade of the projections.

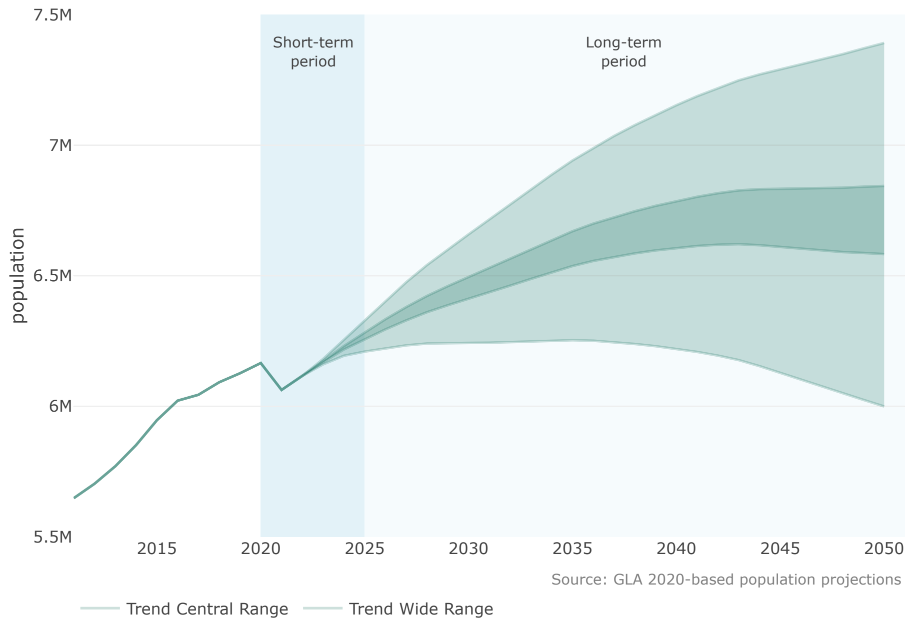


Figure A2: Projected working age (16-64) population, London

Housing-led projections scenarios

The housing-led projections are produced for London boroughs, wards and MSOAs. The GLA suggests that these projections provide the best estimate of future populations at these geographic resolutions. This is because the additional intelligence on the capacity of smaller areas to accommodate population, in the form of available housing stock, provides a more realistic view of future population. The GLA recommends the housing-led projections for most purposes.

Unlike the trend projections which have a projection horizon of 2050, the housing-led projections work to a projection horizon of 2041. This is because the availability, reliability and utility of housing delivery data diminishes over time.

The 2020-based housing-led projections comprise three scenario projections each of which uses a different housing delivery trajectory. In producing the projections no assumption has been made about the likelihood of these delivery scenarios coming forward - the projections are designed to illustrate how the population might change under the conditions described in the scenarios.

The projection trajectories for the three housing-led scenario projections at London level can be seen in Figure A1 above. All three projections fall within the wider range of the trend projections and the Identified Capacity scenario sits within the central range.

Identified capacity

This scenario adapts the 2017 Strategic Housing Land Availability Assessment (SHLAA)[2] housing capacity study for use as a future delivery scenario. A SHLAA is a technical exercise to determine the quantity and suitability of land potentially available for housing development. In the Identified Capacity scenario, the number of dwellings in London is forecast to increase by 788 thousand over the 21-year period to 2041. This is an increase of 21.6% over current stocks.

Past delivery

This scenario assumes that the average of past levels of development, as reported in the London Development Database (LDD) will come forward each year for the period 2022-2041. In this scenario, the number of dwellings is forecast to increase by a total of 664 thousand units over the 21-year period to 2041. This is an increase of 18.2% over current stocks.

Housing targets

This scenario assumes that the 10-year London Plan target of 52,287 dwellings per year will be delivered in each year of the projection period up to 2041. In the initial years of the projection, the level of delivery is assumed to be the same as in the Identified Capacity scenario: 41,700 in 2020 and 43,000 in 2021. The underlying assumption being that this recently developed intelligence, undertaken in 2021 during the pandemic, provides the most reasonable estimate of short-term delivery.

In the Housing Targets scenario, the number of dwellings is forecast to increase by 1.089 million units over the 21-year period to 2041. This is an increase of 29.8% over current stocks.

Monitoring population change

In addition to the 2020-based projections the Demography Team have an ongoing programme of work to monitor, analyse and understand developing trends and changes in London's population. The report *Population Change in London During the Pandemic*[3] provides an overview of the latest direct and indirect evidence of changes in London's population and forms a key part of the evidence base which underpins the assumptions in the 2020-based projections. The report was published in May 2021 and scheduled for update this Autumn.

Full detailed outputs and additional analysis of the 2020-based population and household projections can be found on the demography pages of the London Datastore[4]. The housing-led projections can also be accessed through the updated GLA Population Explorer Tool[5].

2 https://www.london.gov.uk/what-we-do/planning/london-plan/new-london-plan/strategic-housing-land-availability-assessment
3 https://data.london.gov.uk/dataset/population-change-in-london-during-the-pandemic
4 https://data.london.gov.uk/demography/population-and-household-projections/
5 https://apps.london.gov.uk/population-projections/

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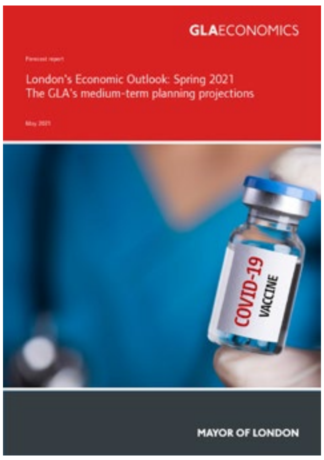

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October 2021

ISSN 1740-9136 (print)   ISSN 1740-9195 (online)   ISSN 1740-9144 (email)

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