GLAECONOMICS

London's Economy Today

Issue 238 | June 2022

Interest rates rise as do fears of stagflation

By **Mike Hope**, Economist, and **Jasmine Farquharson**, Project Management Apprentice

This month the Bank of England (BoE) has raised interest rates to 1.25% from 1%, to counter inflationary pressures. This is its fifth increase from successive meetings of the Monetary Policy Committee. While the latest Consumer Price Inflation (CPI) figures provided evidence of a slowdown in the growth rate of inflation, rising by 9.1% in the 12 months to May after an increase of 9.0% in April, the Bank reckons that inflation may reach 11% before the end of year. This is in part because there will be a further significant increase in household energy prices in October.

Low growth combined with high inflation increases the risk of stagflation. Growth in the UK economy remains weak, in part, because of the cost-of-living crisis discussed below. The Office for National Statistics (ONS) estimates that the UK economy shrank by 0.3% in April, after a fall of 0.1% in March. The fall in output in April was widely based: services fell by 0.3%; Manufacturing by 1.0%; and Construction by 0.4%. More positively, the loss of output from the significant reduction in NHS Test-and-Trace activity in April by itself more than accounts for the fall in GDP, and GDP grew by 0.2% over the three months to April 2022. Still, at least indicators of business confidence at the London level, reported in the LET Indicators section below, remain healthy.

Also in this issue

Datastore

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

The Organization for Economic Cooperation and Development (OECD) in its latest forecast sees the prospects for the UK next year as poor with it predicted to see the second worst growth across the G20 after Russia. Laurence Boone, chief economist at the OECD, said the UK was unique in simultaneously grappling with high inflation, rising interest rates and increasing taxes. "Inflation is high compared with other OECD countries in the G20 … that's one thing. The other thing is there is fast monetary tightening, which is obviously responding to [the inflation], and there is fiscal consolidation, which is the highest in the G7." The OECD UK forecast for 2022 is growth of 3.6%, but this would fall to zero next year as households are increasingly squeezed.

The comparative weakness of the UK economy has been reflected in the pound depreciating against other major currencies. Since January the pound has fallen by more than 10% against the dollar, although the fall against the euro has been less than 5% (Figure 1). Currency depreciation reflects, in part, a lesser willingness on the part of overseas lenders to purchase government debt – the UK Government is relatively more reliant on this source of finance than other countries because of the low UK savings rate. Interest rate increases can offset this tendency with the consequence of higher debt servicing costs – UK Government debt interest costs rose to £7.6 billion in May, up 70% from last year.

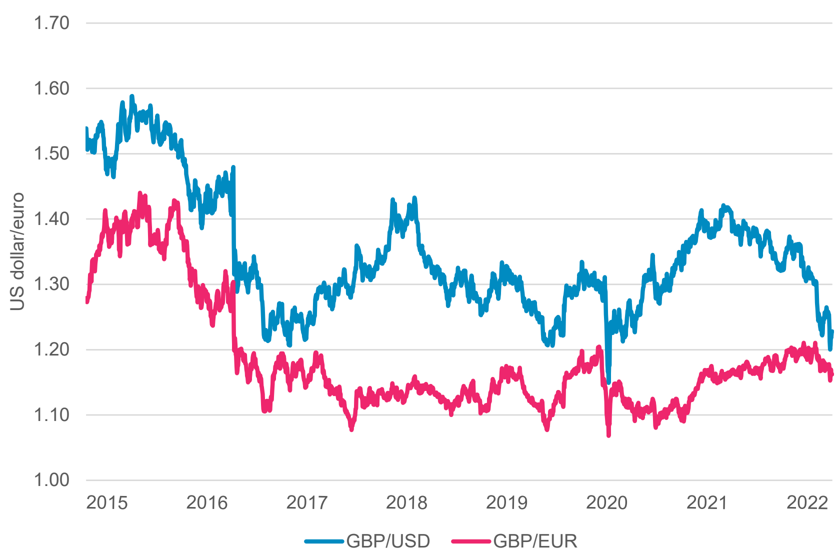


Figure 1: Dollar and euro exchange rates with the pound 2015-2022
Last data point is 21 June 2022

Source: Bank of England

Inflationary pressures are global, and slowing global economic growth

The major central banks, like the BoE, are raising interest rates to tackle inflationary pressures from supply chain shortages and increases in food and energy prices. The US Federal Reserve raised its benchmark policy rate by 0.75 percentage points to a target range of 1.50 – 1.75% and said that another adjustment of that size was possible at its next meeting. The European Central Bank (ECB) signalled that it was likely to raise interest rates by half a percentage point in September in addition to a planned quarter-point rise in July. This would lift interest rates in the Eurozone above zero for the first time in a decade.

The OECD in its latest Economic Outlook notes that prior to the war in Ukraine the world economy was on track for a strong, albeit uneven, recovery from COVID-19. The conflict and supply-chain disruptions exacerbated by shutdowns in China due to the zero-COVID policy are dealing a serious blow to the recovery. Global GDP growth is now projected to slow sharply this year to around 3% and remain at a similar pace in 2023. This is well below the pace of recovery projected last December.

The World Bank also published its Global Economic Prospects in June. It estimates that the fallout from the war in Ukraine will intensify the effects of the pandemic leaving 75 million more people in extreme poverty than expected in 2019. This will raise the risk of a debt crisis in low and middle-income countries. Global conditions today are similar to the 1970s when interest rate rises sparked a global recession and a string of debt crises in developing economies. The commodity price shock has been less severe so far this time, although middle-income economies are particularly exposed with foreign debt rising by $423 billion to more than $8.5 trillion in 2020. Similar to the OECD, under its base case scenario, the World Bank expects global growth to fall from 5.7% last year to 2.9% this year and 3.0% in 2023.

Expectations for London's economy also diminish

At the end of May the ONS released its first annual estimates of GVA growth for London's economy in 2020. London's output fell by 9.2% in 2020, although by 2021 Q3 it was close to reaching pre-pandemic levels (2019 Q4). This updated the previous ONS estimates from its quarterly regional GDP publication and revises substantially the picture of London's progress through the pandemic. These estimates suggest that London's economy has not weathered the pandemic better than the rest of the UK as previously thought. Instead, it appears that progress has been in line with the rest of the economy (Figure 2). ONS also produces nowcast modelled estimates of quarterly GDP, which GLA Economics does not use. While more timely, the estimates are not based on data for the economy, which is reason to believe they are not as robust. They are showing that London has performed better through the pandemic, a conclusion which has received some publicity, and may well be misleading.

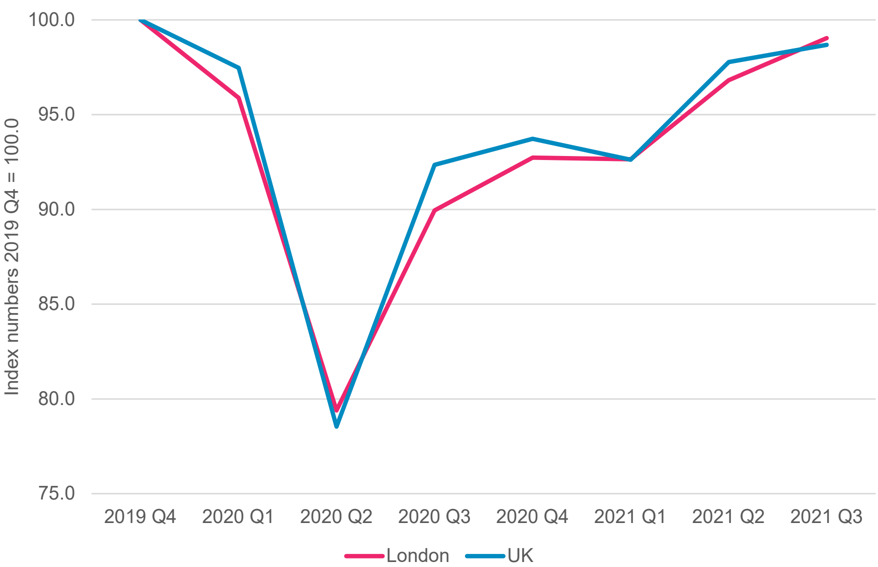


Figure 2: London and UK output trends through the pandemic
Real GVA for London, and real GDP for the UK, 2019 Q4 to 2021 Q3, index numbers 2019 Q4 = 100.0

Source: ONS annual and quarter regional GDP publications and GLA Economics publications
Note: GVA is GLA Economics preferred output measure, and GDP is leading reported indicator for the ONS

This month GLA Economics has published its latest forecasts for London's economy – the LET supplement provides a summary of the main findings. As with the UK economy the forecast of prospects for London's economy has been reduced. Under the central, gradual return to economic growth, scenario, London's real GVA (output) is expected to grow by 4.5% this year, 1.6% in 2023, and 2.3% in 2024. Jobs will take longer to feel the impact of the recovery, and are not expected to reach pre-pandemic levels until 2023. After ticking up 0.3% last year, growth of 2.2% is expected this year, 1.1% in 2023, and 1.2% in 2024.

The cost-of-living crisis deepens for Londoners

As a sign of a deepening crisis UK retail sales volumes fell by 0.5% in May, although they rose by 0.4% in April, and were 2.6% above their pre-pandemic February 2020 levels according to the ONS. Further, the effect of a currency depreciation is that it makes everyone worse off because the price of imports is higher. More positively consumer confidence was little changed, if slightly worse, in June for both London and the UK despite remaining at a low level by historic standards – the LET indicators below provide more information.

The GLA employs YouGov to help track the impact of the cost-of-living crisis. Over the period January – May 2022 a steady proportion of around 35% of Londoners have been coping okay. The proportion which is comfortable has fallen from 23% to 14%, with those 'just about managing' rising from 23% to 28%, and people struggling financially rising from 12% to 15% (Figure 3). The groups more likely to say there are struggling financially are from lower social classes (C2DE), Asian Londoners, those with an income of less than £20,000, renters (and in particular social renters), and deaf and disabled Londoners.

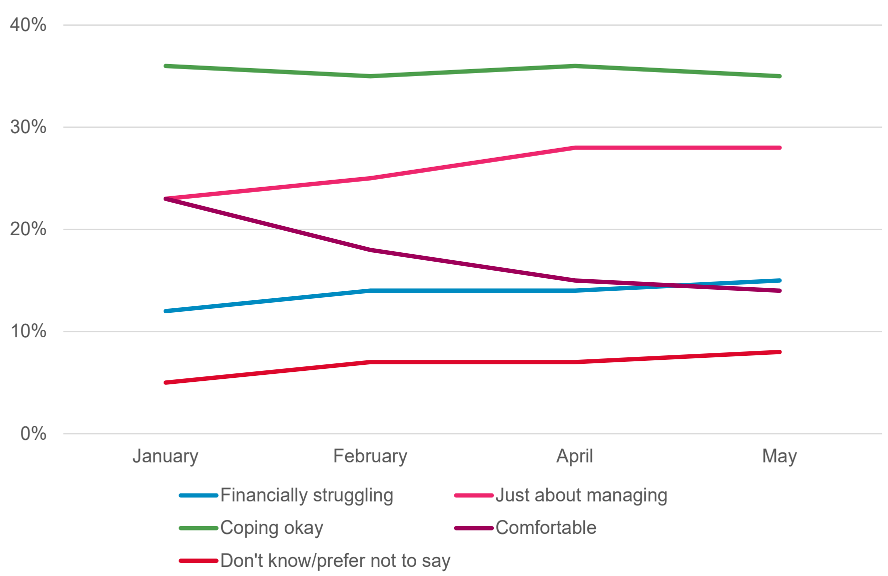


Figure 3: Londoners financial situation, January – May 2022

Source: YouGov

The degree to which households cope with the crisis will depend in part on the degree to which wages keep up with inflation. UK data from the ONS up to the quarter to April indicates that growth in employee's average total pay (including bonuses) was 6.8%, slightly higher than inflation, while excluding bonuses it was 4.2%, a fall of 2.2% after inflation. There were, though, some large sectoral differences. Average total pay growth for the private sector was 8.0%, while for the public sector it was 1.5%.

London made the smallest call on public finances during the pandemic

Since 2009-10 London had been a net contributor to public finances. The latest figures from the ONS show that London moved into fiscal deficit in 2020-21 due to the pandemic. Its deficit was £800 per person compared with a surplus of £4,500 per person in 2019-20. This was the largest change across the countries and regions of the UK, yet London still made the smallest call on public finances (Figure 4). In aggregate, its total fiscal deficit was £7.2 billion in 2020-21 compared with a surplus of £40.5 billion in 2019-20.

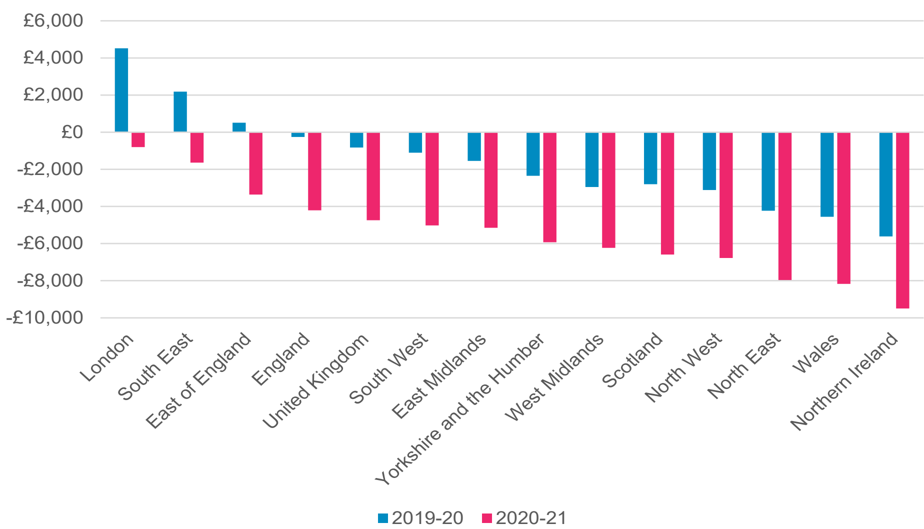


Figure 4: Net fiscal contribution of countries and regions of the UK, 2019-20 and 2020-21

Source: ONS Country and regional public sector finances

All countries and regions of the UK saw a large increase in public expenditure in 2020-21 – identifiable COVID-19 support scheme spending was the main contributor to the increase in expenditure. As reported previously London was the region which made the greatest use proportionately of the furlough scheme, had the largest per head increase in Universal Credit claimants, and has a disproportionate share of businesses. Health was the second biggest contributor to expenditure, and London also received significant additional support for its transport networks. All countries and regions saw, as well, a decrease in the amount of revenue raised – across the UK falls in VAT, fuel duty and business rates were the main contributions to a fall in revenue. Overall, London continued to raise the most revenue per head at £18,430, but also had the most expenditure per head at £19,230.

London flight numbers increase despite staff shortages

Passenger numbers at Heathrow airport fell to near zero at the start of the pandemic, and have been picking up steadily since early last year. By May of this year passenger numbers still remained 21% below their level in May 2019 (Figure 5). To meet increasing demand Terminal 4 has re-opened. It looks, though, as if capacity may not be sufficient to meet the surge in demand over the summer. Airlines did not retain skilled staff after the furlough scheme ended in September, recruitment has not kept up with demand, and the Government has not been willing to loosen Brexit-related immigration rules to allow airlines to transfer staff from their EU-based operations. Airport ground-handling companies are also seeking to fill thousands of jobs – Swissport lost 20,000 of its 65,000 workers during the pandemic, and is now looking to hire another 30,000. The European air traffic control agency, Eurocontrol, has said that some of the continent's control centres would struggle to handle all flights in the period to mid-July. In response to these pressures, Heathrow airport has asked airlines to cut passenger numbers at certain times of the day over the summer to ease queues in terminal buildings at check-in. Gatwick airport will limit the number of daily take-offs and landings to 850 in August – about 50 more than the average in early June, but more than 10% below its pre-pandemic maximum.

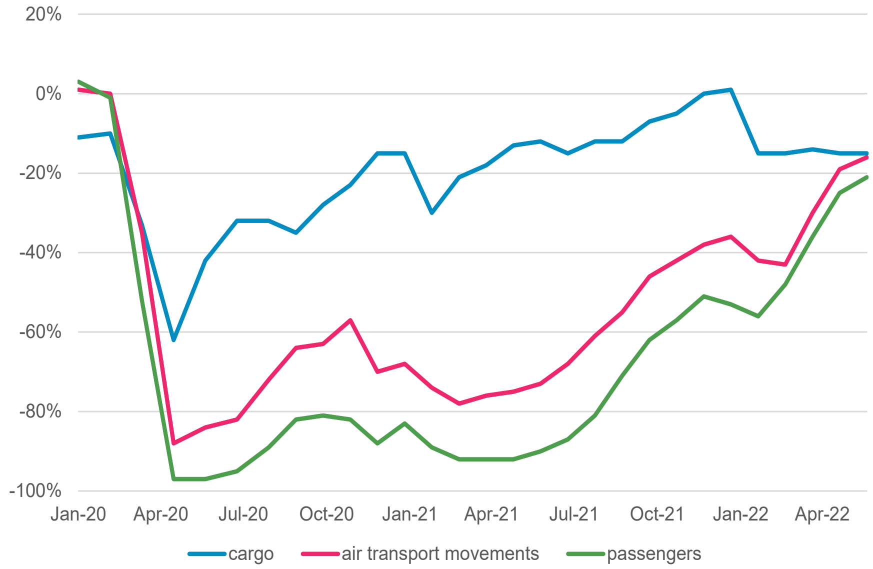


Figure 5: Traffic at Heathrow airport
Percentage change on the same month in 2019, January 2020 – May 2022

Source: Heathrow airport

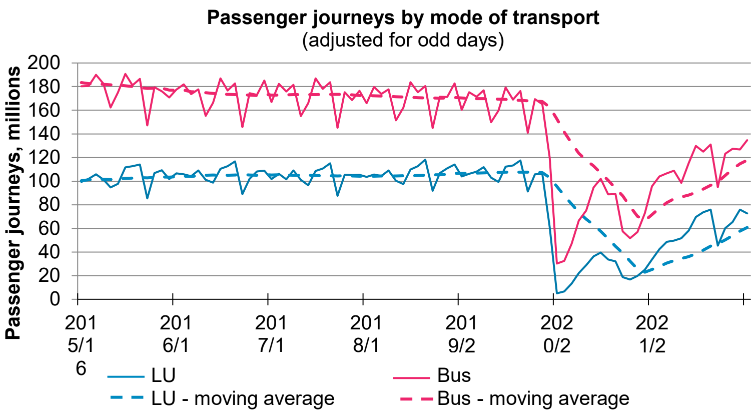
GLA Economics will continue to monitor London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport continue to recover

- 207.3 million passenger journeys were registered between 1 April 2022 and 30 April 2022, 4.8 million journeys more than in the previous period (6 March 2022 – 31 March 2022).
- In the latest period, 72.7 million of all journeys were underground journeys and 134.6 million were bus journeys. Bus journeys increased, while underground journeys fell marginally.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 172.4 in the previous period to 178.3 in the latest period.

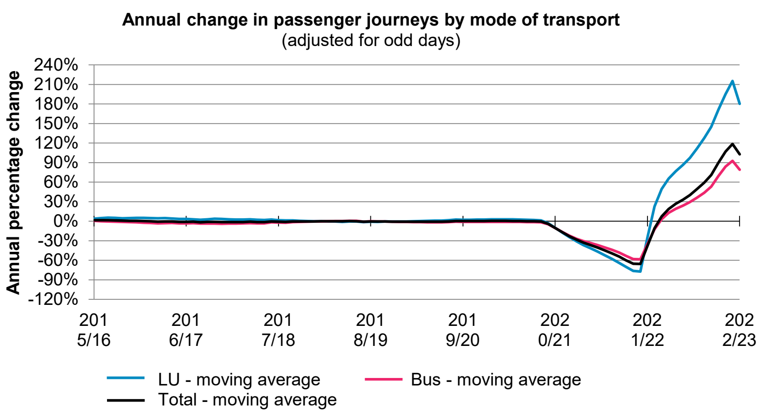
Source: Transport for London
Latest release: June 2022, Next release: July 2022



Annual growth in passenger journey numbers remains strong

- The 13-period moving average annual growth rate in the total number of passenger journeys was 102.7% in the period 1 April 2022 to 30 April down from 118.7% in the period 6 March and 31 March.
- The moving average annual growth rate of bus journeys decreased from 92.5% to 78.9% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 215.3% to 180.2% between those periods.

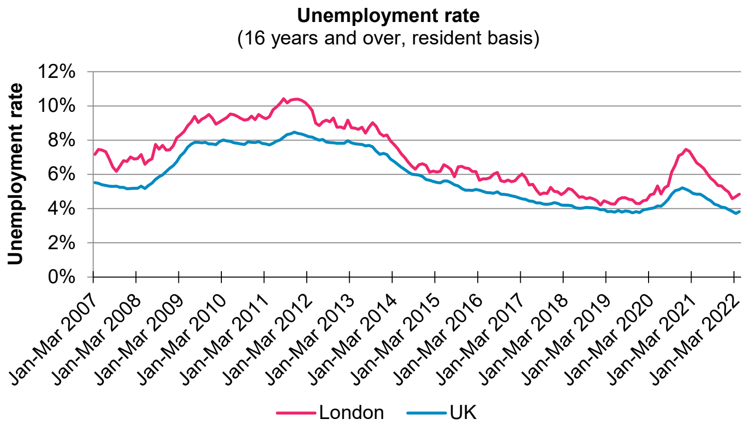
Source: Transport for London
Latest release: June 2022, Next release: July 2022



London's unemployment rate remains low at 4.8% in the quarter to April 2022

- Around 245,000 residents 16 years and over were unemployed in London in February – April 2022.
- The unemployment rate in London was 4.8% in that period, down from 5% in the previous quarter, November – January 2022.
- The UK's unemployment rate also decreased, from 4.0% in November – January to 3.8% in February – April 2022.

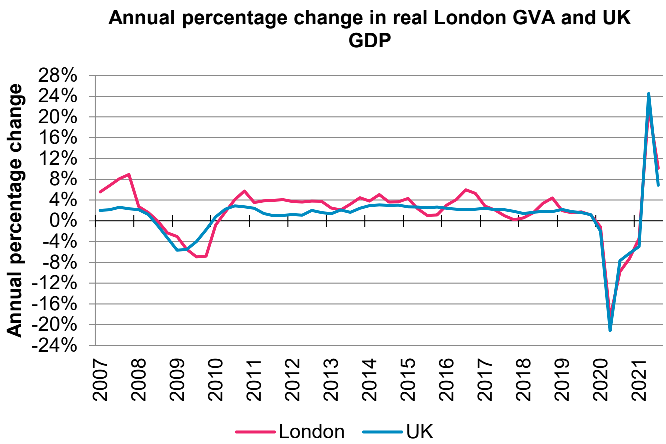
Source: ONS Labour Force Survey
Latest release: June 2022, Next release: July 2022



London's economy had almost returned to pre-pandemic levels of output by Q3 2021

- By Q3 2021 London's GVA was 1.0% below its pre-pandemic level (Q4 2019), and UK GDP was 1.3% below.
- London's real GVA increased by 2.3% in Q3 2021 - compared with Q2 2021 - after increasing by 4.5% in the previous quarter. The UK's real GDP quarterly growth rate for Q3 2021 was 0.9% after increasing by 5.6% in the previous quarter.
- 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.

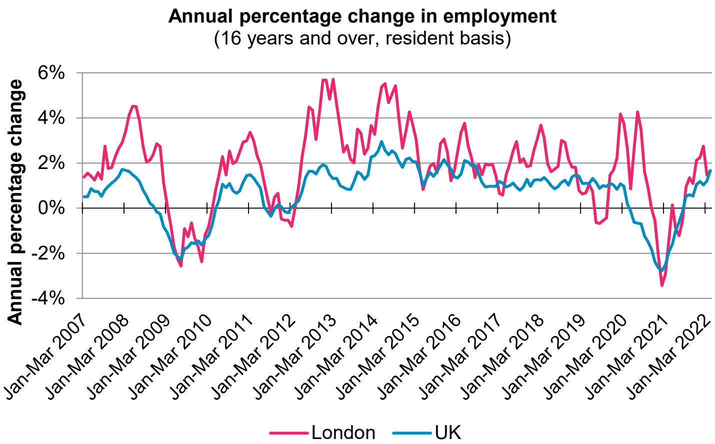
Source: ONS and GLA Economics calculations
Latest release: June 2022, Next release: August 2022



London's year-on-year employment growth rate was 1.7% in the quarter to April 2022

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of February – April 2022.
- The rate of employment growth in the capital was 1.7% in the year to this quarter, compared with 2.2% in the previous quarter to January 2022.
- The change in the UK's employment annual growth rate was 1.7% in the most recent quarter, and 1.3% in the previous quarter.

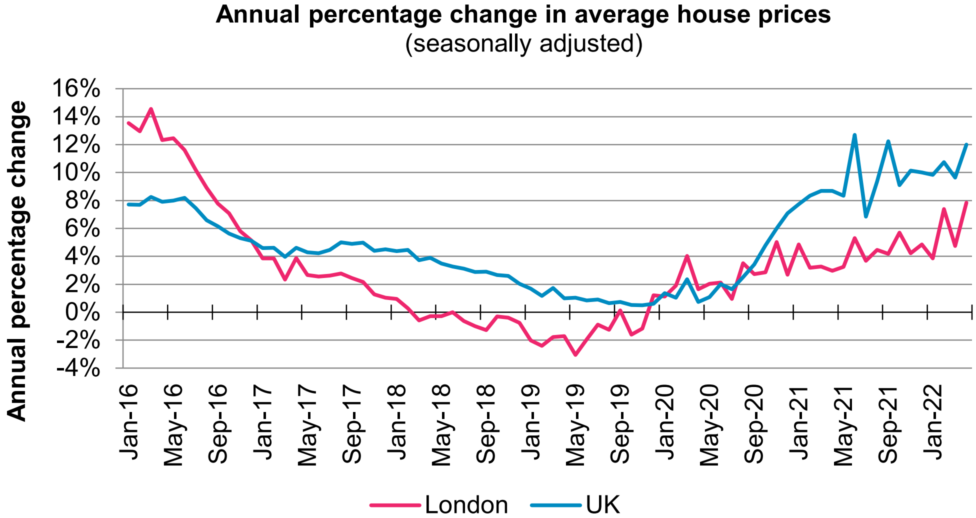
Source: ONS Labour Force Survey
Latest release: June 2022, Next release: July 2022



House prices growth in London remained positive in April

- In April 2022, the average house price in London was £530,000 while for the UK it was £279,000.
- Average house prices in London rose by 7.8% annually in April, more than the March rate of 4.7%.
- Average house prices in the UK rose by 12.0% annually in April, more than the March rate of 9.6%.

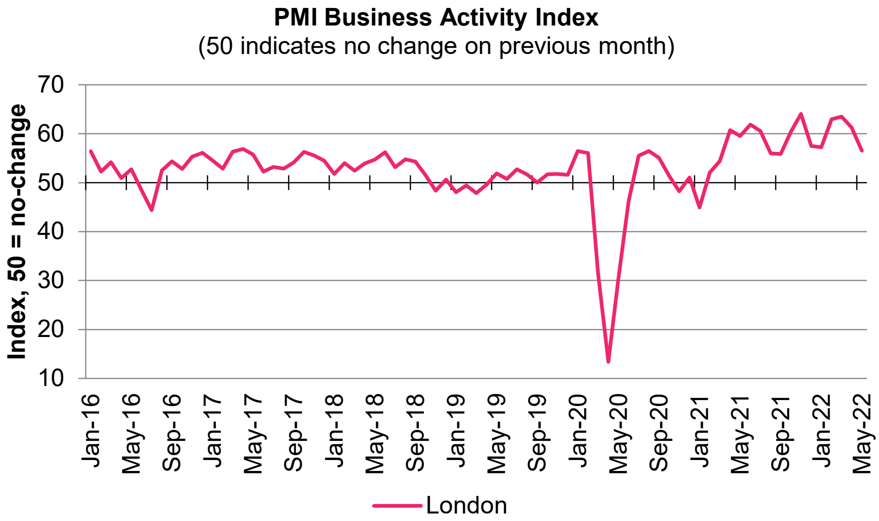
Source: Land Registry and ONS
Latest release: June 2022, Next release: July 2022



In May, the sentiment of London's PMI business activity index decreased but remained strongly positive

- The business activity PMI index for London private firms decreased from 61.3 in April to 56.5 in May.
- 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.

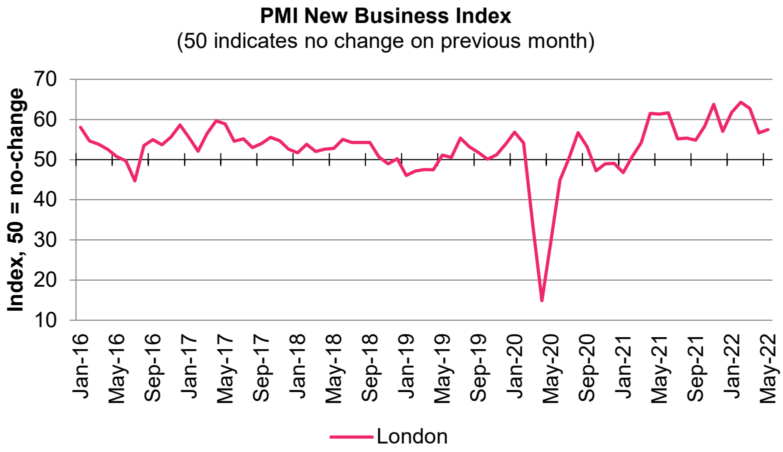
Source: IHS Markit for NatWest
Latest release: June 2022, Next release: July 2022



In May, the sentiment of London's PMI new business activity index increased slightly

- The PMI new business index in London increased slightly from 56.6 in April to 57.5 in May.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

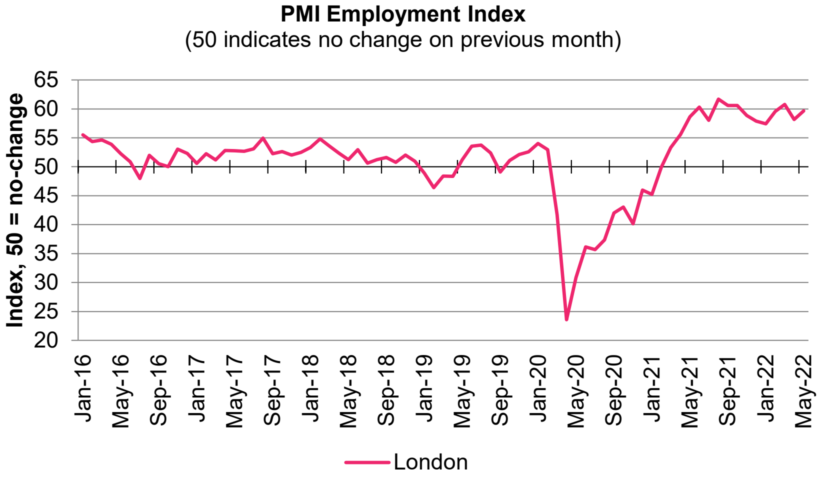
Source: IHS Markit for NatWest
Latest release: June 2022, Next release: July 2022



In May, the sentiment of the PMI employment index in London remained clearly positive

- The Employment Index for London increased slightly from 58.2 in April to 59.7 in May. 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.

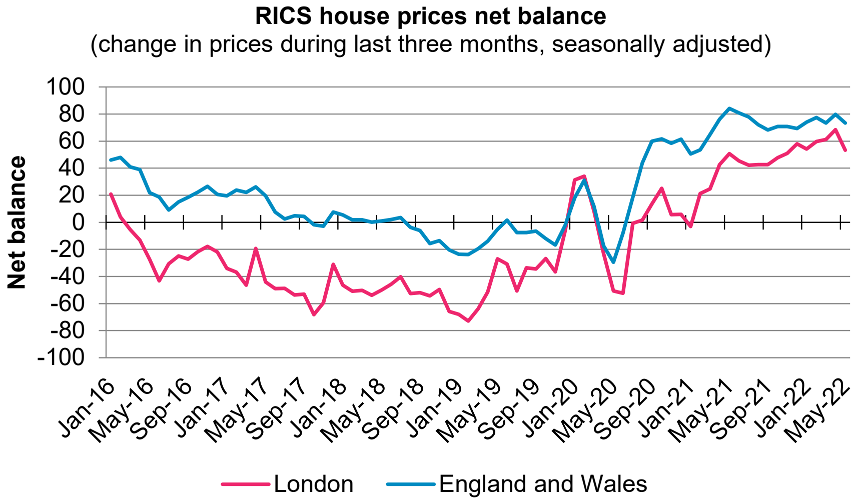
Source: IHS Markit for NatWest
Latest release: June 2022, Next release: July 2022



A smaller, but still significant, majority of property surveyors reported an increase in house prices in London in May

- In May, the net balance of property surveyors in London reporting a rise in house prices was 53, and in April it was 68.
- For England and Wales, the RICS house prices net balance index decreased slightly to 73 in May from 80 in April.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

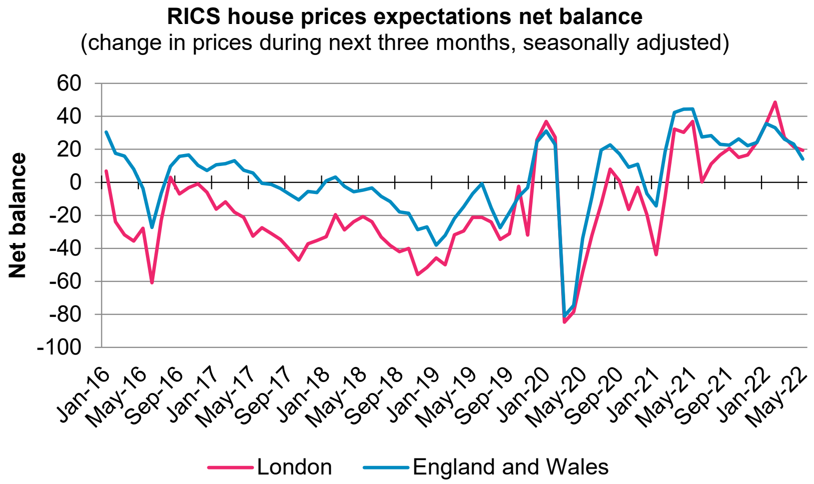
Source: Royal Institution of Chartered Surveyors
Latest release: June 2022, Next release: July 2022



In June, net expectations for house prices for the next three months remained positive if worsening according to surveyors

- The net balance of house prices expectations in London was 19 in May, lower than the balance of 22 in April.
- Sentiment in England and Wales was 14 in May, lower than the value of 23 in April.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

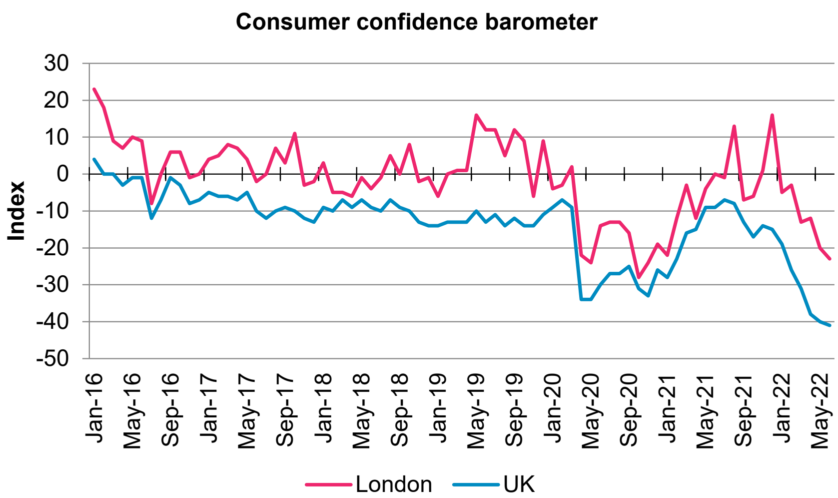
Source: Royal Institution of Chartered Surveyors
Latest release: June 2022, Next release: July 2022



Consumer confidence in London remained negative, and worsened, in June

- In June, the consumer confidence index in London worsened to -23 from -20 in May.
- The sentiment for the UK reduced from -40 in May to -41 in June. 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: June 2022, Next release: July 2022



London macroeconomic scenarios (June 2022 update)

James Watson, Economist

GLA Economics published its latest macroeconomic scenarios-based forecast for London on 21 June. These scenarios have formed part of wider work on the impact of the COVID-19 pandemic on London's economy, and they have been informed by expert consultation and existing literature on pandemics and macroeconomic scenarios[1]. The two main outcome variables are real Gross Value Added (GVA) – a measure of London's output – and workforce jobs (WFJ) – a measure of employment. We project both variables over the medium term (to the end of 2024) and we also project GVA over the longer term (to 2032).

In this context, we have developed three main macroeconomic scenarios for London founded on three sets of plausible narratives for the economy.

- Fast economic recovery (an optimistic but plausible scenario)
- Gradual return to economic growth (the GLA Economics baseline reference scenario)
- Slow economic recovery (a plausible pessimistic case)

These scenarios are not definite predictions about the only possible paths for the economy, nor do they necessarily incorporate optimal policy responses. Instead, they rely on judgements around several key assumptions. While previous scenario updates have focused on the public health and economic support response to COVID-19, focus is now shifting to broader questions on resilience to shocks and policy support[2]. The scenarios also do not capture the full range of uncertainty about the future, which is likely to be much wider.

Within this framework, we can set out the narrative and key results of the main scenarios. Scenario 2 is our baseline, involving a gradual return to economic growth. Following last year's rapid recovery, this scenario is more cautious around the pace of growth from the second half of this year. With inflation at a 40-year

1 See the list of GLA summaries on external research on COVID-19, which have frequently included summaries of macroeconomic scenarios and forecasts publications.

2 For more detail on these assumptions see slides 8 to 11.

high, this will squeeze real household incomes and consumer demand is likely to slow. As a result the economy still faces a spell of weak growth in late 2022 and early 2023 in our baseline forecast. However, we do not expect an outright recession in our baseline. This assumes that there will not be a further significant outbreak of COVID-19 with an adverse effect on the economy.

London's lowest-income households may be particularly vulnerable to the cost-of-living crisis, with the capital having a higher poverty rate after housing costs than the rest of the UK. There is some evidence to suggest that London's prices are rising faster than in other regions[3]. However, for a macroeconomic assessment, it remains important that London has higher average incomes than the rest of the UK and that London's consumers are currently less pessimistic in confidence surveys. As a result, we have not cut our forecast by as much as the downgrade to the outlook in the Bank of England's May Monetary Policy Report. However, that does not mean that the recovery will be straightforward from this point. Customer-facing sectors likely face a stark challenge in some of the quarters ahead – even if their annual growth rates are flattered by the strong recovery in 2021. And our forecast now sees it taking ten years for London's output to return to levels consistent with the pre-pandemic trend.

Scenario 1, a plausible upside, involves a faster economic recovery. In this scenario, we assume London's stronger aggregate incomes compared to the rest of the UK offer a buffer against inflation as richer households spend more of their pandemic savings. This is helped by the current level of fiscal policy support, which proves sufficient to meaningfully protect aggregate incomes. We also assume that still-positive business sentiment keeps labour demand firm, which means that tightening macro policy does not dampen the employment recovery. The boost to demand raises output and employment, prompting stronger business investment and mostly eliminating the medium-term output scarring in our baseline.

Scenario 3, a plausible downside, assumes that London slips into recession later this year. The drag on real incomes is going to hit the lowest-income households the hardest. But lower-income households also tend to spend more of their income, so this could prove critical for the overall demand picture. Yet despite weakening growth, the Bank of England is forced to take an aggressive approach to monetary policy tightening as global inflation pressures continue to climb. Amid slowing demand, higher borrowing costs and rising input prices, businesses hold back on investment and hiring plans. Taken together, these trends mean London's output contracts across H2 2022 and early 2023, and job growth grinds to a halt. A fresh downturn and slow medium-term growth mean there is significant economic scarring, some of which persists in the long term, as firms close and workers lose their jobs.

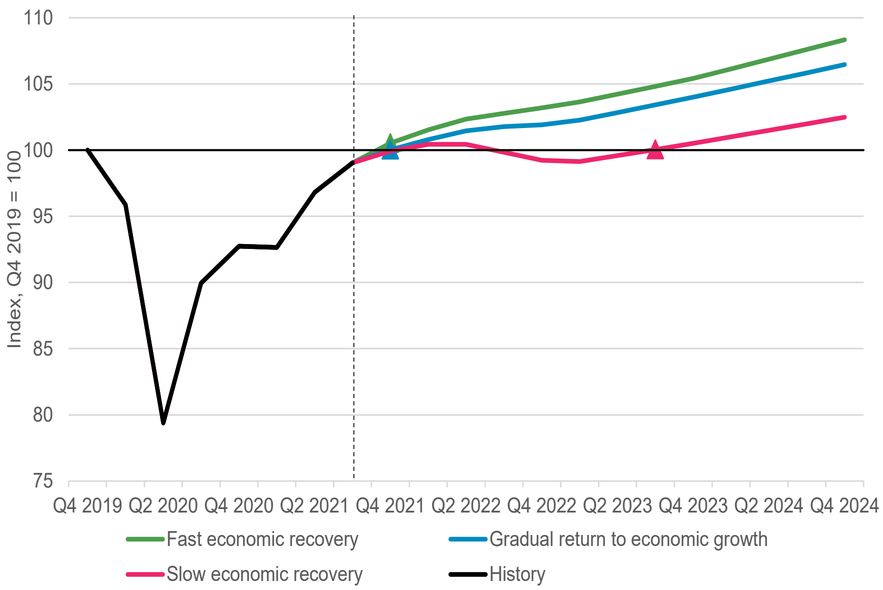


Figure A1: Shape of the output recovery in London (index)

Source: GLA Economics; Note: Index uses Q4 2019 level = 100. The 'triangle' indicates the quarter when the series reaches pre-crisis levels (if the triangle is above 100, pre-crisis levels were surpassed in the same quarter).

3 The National Institute of Economic and Social Research have found that London's underlying inflation is running as much as 1ppt higher than the rate for the UK overall. See NIESR, Monthly CPI Tracker, May 2022

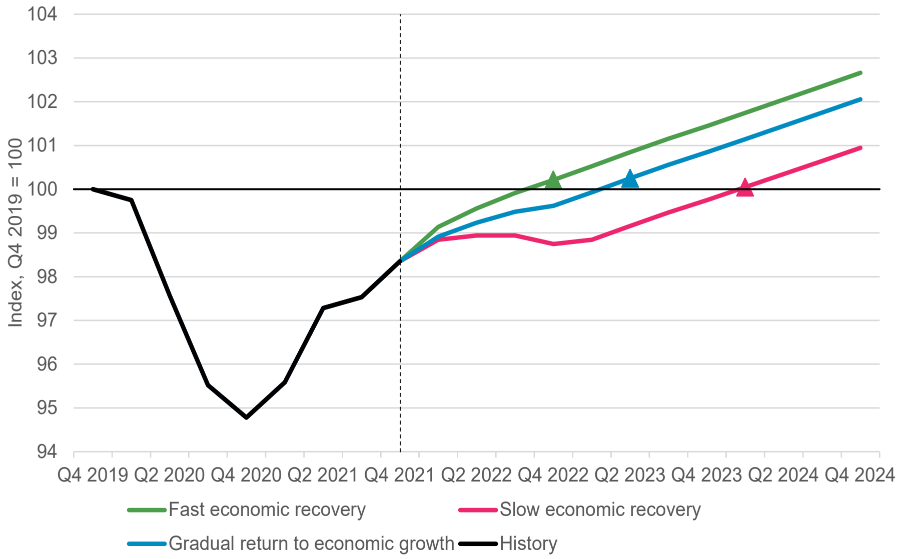


Figure A2: Shape of the jobs recovery in London (index)

Source: GLA Economics; Note: Index uses Q4 2019 level = 100. The 'triangle' indicates the quarter when the series reaches pre-crisis levels (if the triangle is above 100, pre-crisis levels were surpassed in the same quarter).

Overall, while the medium-term paths for output and employment are mostly higher now than expected at the peak of the crisis, the balance of risk is clearly skewed to the downside. The downside potential for London's economy is significant, with GVA in the slow recovery scenario ending 2024 nearly 4% below the baseline, while the upside ends 2023 just under 2% above baseline. The wide gap between scenarios also demonstrates the high uncertainty around economic conditions. While our baseline remains cautiously optimistic about the recovery, the broader picture of our scenarios for London's economy is more subdued.

The main results are presented below:

Headline recovery in the medium term (2022 to 2023)

- Under the **gradual return to economic growth scenario**, our baseline, L**ondon's real GVA is expected to grow by 4.5% this year**. This is a firm pace of growth, but lower than December's 5% forecast, and sharply down from 2021's estimated growth of 8.5%. **Weak demand in the second half of 2022 and early 2023 mean growth will slow sharply in 2023 (1.6%), before recovering a little in 2024 (2.3%)** (Figure A3).
- **Real GVA likely already reached its pre-crisis level in Q4 2021** (Figure A1), while workforce jobs only reach pre-crisis levels in mid-2023 in the baseline (Figure A2).
- Jobs will take longer to feel the impact of the recovery. After ticking up 0.3% last year, **employment is set to see moderate growth this year (2.2%), before slowing in 2023 (1.1%) and maintaining a similar pace in 2024 (1.2%)** (Figure A4).
- **Under the fast economic recovery scenario, demand would remain resilient, though momentum is still weaker next year**. In this scenario, output would rise 5.4% this year, before easing closer to long-term averages at 2% growth in 2023 and 2.6% in 2024. **Employment would also see a firmer rebound this year**, with growth of 2.6%, followed by a convergence to baseline growth rates from next year.
- **In the slow economic recovery scenario, output faces a double-dip recession**. GVA grows 3% in 2022, before a recession late this year and into 2023 means next year output averages at a 0.2% drop. Output growth then converges to its long-term pace at 1.9% in 2024. **Jobs follow a similar pattern**, with growth of 1.7% in 2022, just 0.4% in 2023 and 1.2% in 2024. **These profiles do not return to pre-pandemic trends**.
- **GLA Economics projections had previously tended to become more optimistic** for output and jobs over successive iterations of our forecasts/scenarios. **But the latest iterations are seeing this trend reverse**, especially in the later years of the forecast.

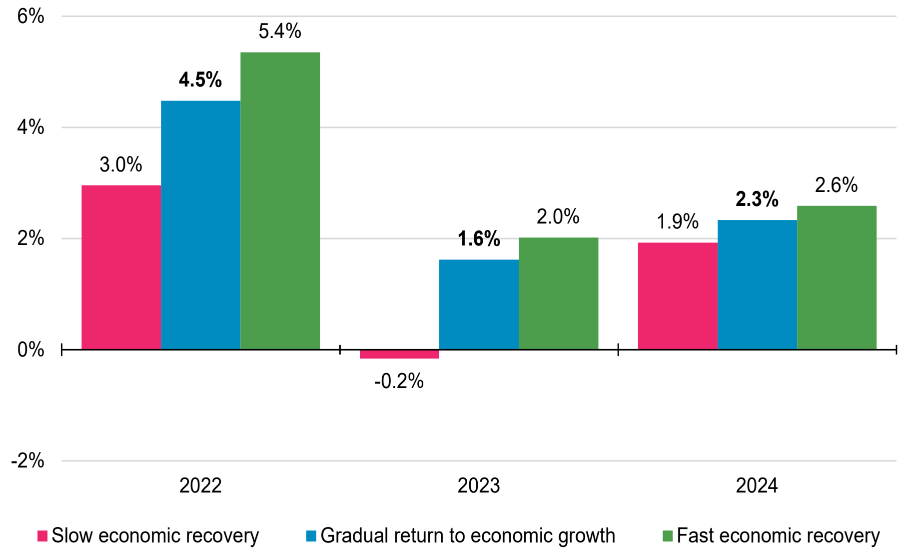


Figure A3: Medium-term real GVA projections, annual growth rates

Source: GLA Economics

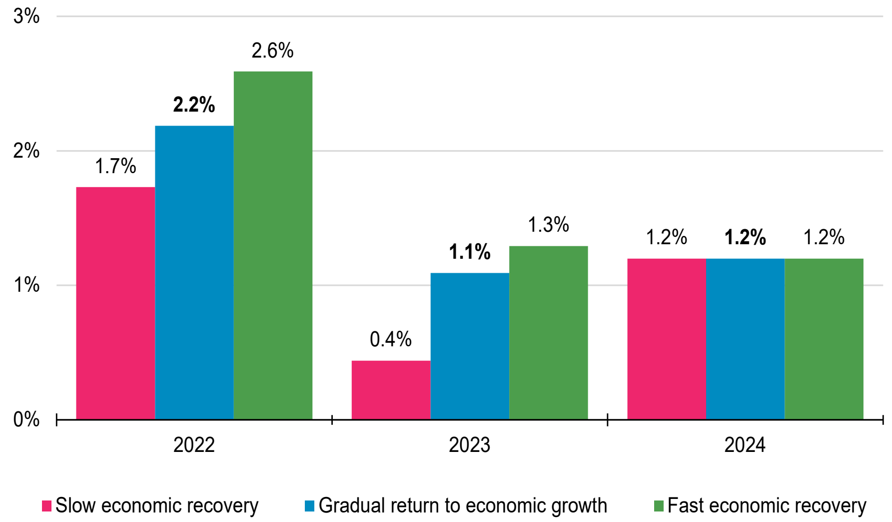


Figure A4: Medium-term Workforce jobs projections, annual growth rates

Source: GLA Economics

Sectoral output recoveries in the medium term (2022 to 2023)

- **London's economic recovery is set to vary widely across industries** (Table A1).
- While we expect firm output growth in 2022 in much of the economy, the **sectors most affected by the pandemic will see output remain below 2019 levels**.
- Examples include **Accommodation and food services**, where output in 2022 will still be over 27% below 2019 levels, despite growing 22%. **Transportation and storage** and **Arts, entertainment and recreation** will also lag 2019 output in 2022 despite very strong growth, while **Construction** also faces an incomplete recovery.
- **Other sectors are seeing firm growth despite reaching pre-pandemic output levels rapidly**. This includes sectors that may have adapted faster to home working, such as **Information and communication**, **Financial services** or **Professional services**.
- While the consumer recovery continues in early 2022, **Manufacturing** does well out of the shift of consumer demand to goods from services during the pandemic.
- **Wholesale and retail trade** will see output remain well above pre-pandemic levels, but high inflation will pull growth well below the economy average this year and the sector will come close to a standstill in 2023.

Table A1: London's real GVA by industry in 2022 and 2023

Real GVA	% diff from 2019		Annual growth	
Sector	2022	2023	2022	2023
Agriculture, forestry and fishing	-0.3	1.0	5.8	1.3
Mining and quarrying	23.7	23.2	-0.9	-0.4
Manufacturing	0.7	2.3	2.8	1.6
Electricity, gas, steam and air-conditioning supply	-18.3	-15.7	2.9	3.1
Water supply; sewerage and waste management	21.7	25.7	6.2	3.2
Construction	-12.1	-11.3	4.2	0.9
Wholesale and retail trade; repair of motor vehicles	18.2	18.7	1.1	0.4
Transportation and storage	-17.7	-14.4	18.1	3.9
Accommodation and food service activities	-27.3	-25.8	22.1	2.1
Information and communication	22.3	23.8	7.2	1.2
Financial and insurance activities	0.8	2.9	5.8	2.1
Real estate activities	0.1	1.6	0.8	1.4
Professional, scientific and technical activities	12.2	13.8	3.9	1.4
Administrative and support service activities	7.4	8.7	0.0	1.2
Public administration and defence	4.1	4.6	-0.5	0.6
Education	-6.3	-4.1	6.7	2.4
Human health and social work activities	1.6	3.7	2.5	2.1
Arts, entertainment and recreation	-30.4	-26.1	8.0	6.1
Other service activities	1.2	3.1	11.7	1.8
Activities of households	-11.0	-9.1	7.1	2.2

Source: GLA Economics. Note: colour coding shows the most negative results in red, the most positive results in green, and results in the middle in white. Primary industries are shaded in grey.

Sectoral employment recoveries in the medium term (2022 to 2023)

- Workforce job projections show that **for a lot of sectors, London's labour market recovery will still be incomplete** this year (Table A2).
- **Sectors hit hard by the pandemic are likely to take the longest to recover**. This includes customer-facing service sectors like **Accommodation and food services** and **Arts and entertainment**, which now face headwinds from squeezed real incomes.
- **Wholesale and retail trade** jobs are set to fall this year and next amid rising inflation.
- **London's core specialist service sectors face a very mixed outlook** for 2022 and 2023. **Information and communication** is set for **firm job growth** over the two years, while **Financial services** and **Real estate** see weak or **falling employment in 2022** before picking up next year. **Professional services** follow the opposite pattern.
- Areas of the economy dominated by **public sector jobs are projected to generally remain above 2019 levels of employment**, though growth slows next year as spending plans are not increased in line with the rising pace of inflation.

Table A2: London's workforce jobs by industry in 2022 and 2023

Workforce jobs	% diff from 2019		Annual growth	
Sector	2022	2023	2022	2023
Agriculture, forestry and fishing	-46.4	-45.8	100.9	1.2
Mining and quarrying	34.7	38.6	10.2	2.8
Manufacturing	1.3	3.8	6.9	2.4
Electricity, gas, steam and air-conditioning supply	21.4	23.3	7.1	1.6
Water supply; sewerage and waste management	24.8	26.3	6.7	1.2
Construction	-14.0	-12.1	4.4	2.2
Wholesale and retail trade; repair of motor vehicles	3.3	3.2	-0.3	-0.1
Transportation and storage	0.3	1.5	2.3	1.2
Accommodation and food service activities	-10.0	-8.3	3.4	1.8
Information and communication	0.1	1.5	6.2	1.4
Financial and insurance activities	-1.5	-0.6	-2.0	1.0
Real estate activities	-6.1	-3.4	0.5	2.8
Professional, scientific and technical activities	2.6	2.8	2.2	0.2
Administrative and support service activities	-7.6	-5.7	4.6	2.1
Public administration and defence	12.2	12.6	2.9	0.4
Education	5.8	7.1	2.6	1.2
Human health and social work activities	10.5	11.3	-0.2	0.8
Arts, entertainment and recreation	-7.6	-6.0	3.4	1.8
Other service activities	-0.7	0.5	-1.1	1.2
Activities of households	-9.3	-12.8	-3.4	-3.9

Source: GLA Economics. Note: colour coding shows the most negative results in red, the most positive results in green, and results in the middle in white. Primary industries are shaded grey to avoid them having an outsize influence on shading for the rest of the table.

Long-term projections (2024 to 2031)

- Looking at the longer term, **GLA Economics projects that real GVA levels will return to pre-crisis trends** (the post-Brexit counterfactual) **but that it may take a decade**. This does still mean there is no long-term scarring in our baseline (Figure A5).
- In our fast economic recovery scenario, output pushes above this pre-crisis trend as soon as 2025, helping push London's growth back towards long-term averages.
- The slow recovery scenario sees London's output well below the counterfactual in the long term. Heavy scarring in the medium term raises structural unemployment, cuts investment and hits agglomeration benefits, lowering long-term output growth.
- As discussed above, these scenarios do not reflect the full range of uncertainty and there could be more downside risk in the long term associated with the city's ability to remain as attractive and competitive as in the two decades prior to COVID-19.

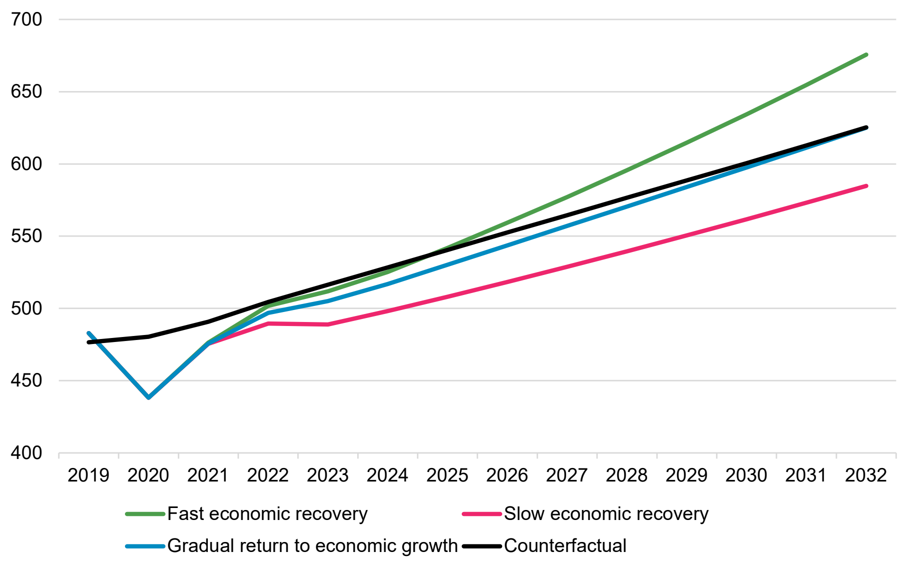


Figure A5: London's real GVA in levels (£ billion, constant 2019 prices) under all scenarios

Source: GLA Economics

The scenario results presented in this supplement come within a context of continuing unprecedented uncertainty. **Overall, GLA Economics judges that risks are tilted to the downside**, especially with the **war in Ukraine potentially raising global commodity prices further** even as consumer incomes already face a squeeze from rapid inflation. **Other headwinds also skew risks to the downside**, including heightened geopolitical tensions, the possible emergence of new COVID-19 variants, global supply chain challenges and the risk of skill and geographic labour mismatches due to remote working. Therefore, **GLA Economics will continue to track the economic data to review these scenario outcomes in the future**. Successive updates will be released on the London Datastore.

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This new report by GLA City Intelligence brings together a wide range of outcome data relevant to the work of the Mayor and the London Assembly, which will also be of interest to other stakeholders in London.

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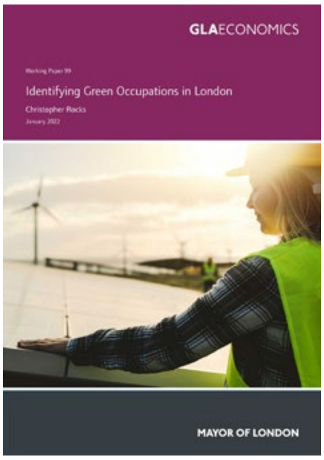

Identifying Green Occupations in London
Working Paper 99 uses an O*NET-based classification of green jobs to identify occupations that are likely to be affected by the transition to a low-carbon circular ('greener') economy.

The transition to a greener economy will have wide-ranging and variable impacts on skills and training requirements. There are a range of occupations where workers will need to carry out new or enhanced green tasks, with implications for education provision and workforce training.

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GLA Economics' 40th London forecast isuggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 4.5% this year due to the impact of the quarterly recovery from the COVID-19 crisis at the end of last year and beginning of this year feeding through into the annual data. This growth rate is expected to fall to 1.6% in 2023 due to the cost-of-living crisis before improving to 2.3% in 2024.

Download the full publication.

GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

Email glaeconomics@london.gov.uk
Internet www.london.gov.uk

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

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About GLA Economics
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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