

Forecast report

London's Economic Outlook: Autumn 2020

The GLA's medium-term planning projections

December 2020



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1. Executive summary

GLA Economics' 37th London forecast¹ suggests that:

- London's real Gross Value Added (GVA) growth rate is forecast to be -9.5% this year due to the present COVID-19 crisis. This growth rate is expected to rebound to 6.2% in 2021 and 6.9% in 2022.
- London is forecast to see a more modest fall in the number of workforce jobs² in 2020 (-1.1% in annual terms) although this will accelerate in 2021 (-4.6%) before there is some recovery in 2022 (3.0%).
- Similarly, London's household income and expenditure are both forecast to decrease notably in 2020 before starting to grow again in 2021 and 2022.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. Given the unprecedented uncertainty resulting from the current COVID-19 crisis, the forecasts presented in this document should be interpreted as a projection of our reference scenario – i.e., the most likely scenario under GLA Economics' criterion – for London's economy in the medium-term.

Table 1.1: Summary of economic forecasts under GLA Economics reference scenario

Annual growth rates (per cent)	2019 ³	2020	2021	2022
London GVA (constant 2016, £ billion)	5.4	-9.5	6.2	6.9
<i>Consensus (average of independent forecasts)</i>		-8.7	6.9	5.0
London workforce jobs	2.1	-1.1	-4.6	3.0
<i>Consensus (average of independent forecasts)</i>		-1.9	-0.2	2.7
London household expenditure (constant 2016, £ billion)	1.4	-7.6	4.9	5.4
London household income (constant 2016, £ billion)	1.4	-4.1	1.7	3.5
<i>Memo: Projected UK RPI⁴ (Inflation rate)</i>	2.6	1.5	2.3	3.1
<i>Projected UK CPI⁵ (Inflation rate)</i>	1.8	0.9	1.7	2.2

Sources: GLA Economics' Autumn 2020 forecast⁶

At the time of writing of this London's Economic Outlook (LEO), the UK economy is experiencing a historic crisis resulting from the COVID-19 pandemic and unprecedented restrictions on freedom of movement and economic activity imposed by the Government. The first lockdown to stop the spread of COVID-19 in the country commenced on 23 March 2020 and was gradually eased from 1 June. London faced greater

¹ The forecast is based on a recently updated econometric model built by GLA Economics. For more details see 'The new GLA Economics forecast models for London's economy, GLAE Working Paper n°98, June 2020'.

² Unless stated otherwise, any reference to jobs in the main text refers to workforce jobs.

³ Historic data for London's real GVA – except for Q2–Q4 2019 – and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics forecasts.

⁴ RPI = Retail Price Index. Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2020). 'Forecasts for the UK economy: a comparison of independent forecasts', November 2020. Data for 2019 is from the ONS and GLAE estimates, [Inflation and price indices - Office for National Statistics](#).

⁵ CPI = Consumer Price Index. . Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2020). 'Forecasts for the UK economy: a comparison of independent forecasts', November 2020. Data for 2019 is from the ONS and GLAE estimates, [Inflation and price indices - Office for National Statistics](#). . Since December 2003, the Bank of England's symmetrical inflation target is annual CPI inflation at 2%.

⁶ Unlike previous editions of LEO prior to the Spring 2020 forecast this report does not include a consensus forecast for household spending as it is not being estimated by all independent forecasters.

restrictions from 16 October, and England went into a second, but less stringent, lockdown from 5 November which ended on 2 December. After this date London entered Tier 2, or the middle tier, of three tiers of further restrictions.

The COVID-19 crisis is a major negative economic shock unlike anything seen in at least the last 120 years. The economy contracted by 20% in the second quarter according to the Office for National Statistics (ONS)⁷. It had been recovering since April, but the recovery slowed and in September UK GDP still remained 8.2% below its level in February⁸. There has been a loss of jobs, but it has been contained so far, with the unemployment rate rising to 4.8% in the third quarter⁹. This is due largely to the Government's Coronavirus Job Retention Scheme, commonly known as the furloughing scheme, which has now been extended to March 2021. In the seven months to October there were 3.6m starts to Universal Credit¹⁰ suggesting that there has been a significant adverse impact on household finances despite furloughing. Public finances have also deteriorated markedly. The Government has spent over £280bn since March to tackle the COVID-19 crisis and its effects¹¹. Certain non-tradeable sectors have been most affected¹²: Accommodation and food services (which saw an 86% drop in UK output in Q2 2020); Other services (48% drop); Arts, entertainment, and recreation (42% drop), and; Construction (36% drop).

In response to the present extraordinary shock, which is affecting both aggregate demand and aggregate supply, the UK Government and the Bank of England have taken a range of unprecedented measures since March (see [Box 3.1](#) of this LEO and [Box 3.1](#) of the Spring 2020 LEO¹³ for more detail). These aim to mitigate the adverse effects of the COVID-19 crisis this year and boost a bounce back of the economy in 2021 and 2022. Most forecasters expect these measures to provide support to the economy – at least up to some extent. The expectation of forecasters was for some form of V-shaped recovery as the central macroeconomic scenario until the second lockdown making a W-shaped recovery more likely¹⁴ – even so, strong growth in 2021 would mostly offset the output losses in 2020. The likelihood that a vaccine will become available later this year, or early next year, supports the view that there will be a gradual return to normality next year.

Looking at the London level, our initial forecasts and the available economic indicators up to the date of writing suggest that the economic situation does not differ substantially from the national one in this crisis. The unemployment rate in the capital started to rise from 4.3% in Q4 2019 to 6.0% in the third quarter of 2020 but as yet official statistics only provide limited insight on the impact of the crisis. There is a mixed picture on indicators. While all PMIs – business activity, new business, and employment – have registered a historic fall between February and April, by October the business PMIs had recovered, but the employment PMI was still languishing. House price expectations have improved from the plunge in March and April, but consumer confidence has fallen further from its low in April, which was already at its lowest level in seven years. In this context, the GLA Economics reference scenario for London sees London's output falling markedly this year but growing strongly both next year and in 2022. The recovery in employment is expected to be slower than in output (see [Table 1.1](#) and [Chapter 5](#) for more detail). In particular, the forecast is real GVA in London returning to pre-crisis levels – i.e., Q4 2019 – in Q2 2022 while workforce jobs would not recover their former level over the forecast horizon (see [Figure 1.3](#)). Nevertheless, our forecast assumes that some of London's local characteristics might become a comparative advantage in this

⁷ ONS (2020). '[GDP quarterly national accounts, UK](#)'. 30 September 2020.

⁸ ONS (2020). '[GDP monthly estimate, UK](#)' 12 November 2020.

⁹ ONS (10 November 2020). '[Labour market overview, UK](#)'

¹⁰ DWP (2020). '[Universal Credit statistics: 29 April 2013 to 8 October 2020](#)'. 10 November 2020.

¹¹ HM Treasury (2020). '[Spending Review 2020 documents](#)'. 25 November 2020.

¹² ONS (2020). '[GDP quarterly national accounts, UK](#)'. 30 September 2020.

¹³ GLA Economics (2020). '[London's Economic Outlook: Spring 2020](#)'. 15 June 2020.

¹⁴ This, for example, is what the Bank of England (BoE) is assuming. See, Bank of England (2020). '[Monetary Policy Report - November 2020](#)'. 5 November 2020.

crisis. Specifically, some of London's main sectors – Financial services, Real Estate, Professional & technical activities and Information & communications activities – have been hit less severely by lockdown restrictions and have a relative greater proportion of workers being able to work from home. However, these positive effects might be offset by other features such as the high reliance of London workers on public transport – which will be very limited in capacity for a long time – and a very negative shock in terms of tourism and international students in the capital. There may also be a large and persistent negative shock for certain sectors such as Accommodation & food services, Arts, entertainment & recreation, Education, and Other services.

The big picture described above for both London and the UK economies is narrowly linked to a new - and unprecedented in size - level of uncertainty. Since our previous forecast in June 2020, both global and domestic risks on the downside have materialised. Recent more positive developments include the possible availability of a vaccine in the next month or so, which should help to bring the pandemic under control, and lead to the lifting of existing restrictions on freedom of movement and economic activity. Secondly, the election of Joe Biden as President of the United States should bring more collaboration between western countries, and more certainty to US foreign policy.

Beyond this, the next greatest risk to the UK economy (and therefore to this forecast) continues to be the ongoing future trading relationship negotiations between the UK and the EU, which at the time of writing had yet to be concluded and which had dampened economic sentiment before the crisis and continues to act as a drag. As the EU receives the highest amount of London exports, the UK's future relationship with the block will have a significant impact on London's economic outlook. The conclusion of the transition period at the end of December is likely to bring disruption because of a lack of preparedness on the part of both business and government. The introduction of non-tariff barriers (NTBs) may well also affect London's export-oriented service sectors. As one example, the loss of equivalence of standards in financial services will have a detrimental impact on the City of London. Adverse effects from the restructuring of the economy are likely to continue over a period of years – the Office for Budget Responsibility (OBR) reports¹⁵ that so far just a third of the expected loss of productivity from Brexit has occurred. For businesses also facing COVID-19 Brexit increases uncertainty and impairs viability both in domestic and overseas markets ([Box 3.2](#) says more on these issues).

The other main UK risk is to the public finances from the borrowing needed to support public services and the economy through the COVID-19 crisis. As the Bank of England (BoE) has lowered interest rates the debt servicing costs are lower than they were at the Budget. If, however, there is another shock to the economy or there are inflationary pressures and the BoE raises interest rates in response, debt financing costs may become unsustainable. The Government would need to reduce spending, raise taxes, or both, with adverse effects for economic growth and investment.

Outside of COVID-19 and Brexit, other global risks continue with potential effects on London's economy. Firstly, a serious increase in global protectionism which could be damaging to trade flows, or there might be a contraction of supply chains to make them more resilient. Secondly, UK's labour productivity growth remains weak and it is not expected to improve in the medium-term due to the current crises. Thirdly, an intensification of the current regional conflicts in the world cannot be discarded. Finally, the international economic context remains highly volatile at this moment as well. Structural problems and macroeconomic imbalances remain in the Eurozone and the COVID-19 crisis is likely to speed up the manifestation of negative consequences. Meanwhile, the global economic slowdown is damaging for all economies. The US

¹⁵ OBR (2020). ['Economic and fiscal outlook – March 2020'](#). March 2020.

reached its highest unemployment rate since at least the start of World War 2, in April this year¹⁶ while the Federal Reserve has stimulated the economy with the most expansionary monetary policy ever seen¹⁷. All of which indicates the size of the current crisis in the advanced economies.

This then is a time of unprecedented uncertainty about the future path of the economy, and indeed the state of the economy at the current moment. In response GLA Economics has developed macroeconomic scenarios¹⁸ which it has updated regularly to maintain an up-to-date view on how the economy is evolving. What is clear is that the downturn this year will be smaller than originally feared, while still large by historic standards. The recovery will also take longer than originally expected. GLA Economics has also developed alternative scenarios on which it reports in LEO for the first time in [Chapter 5](#).

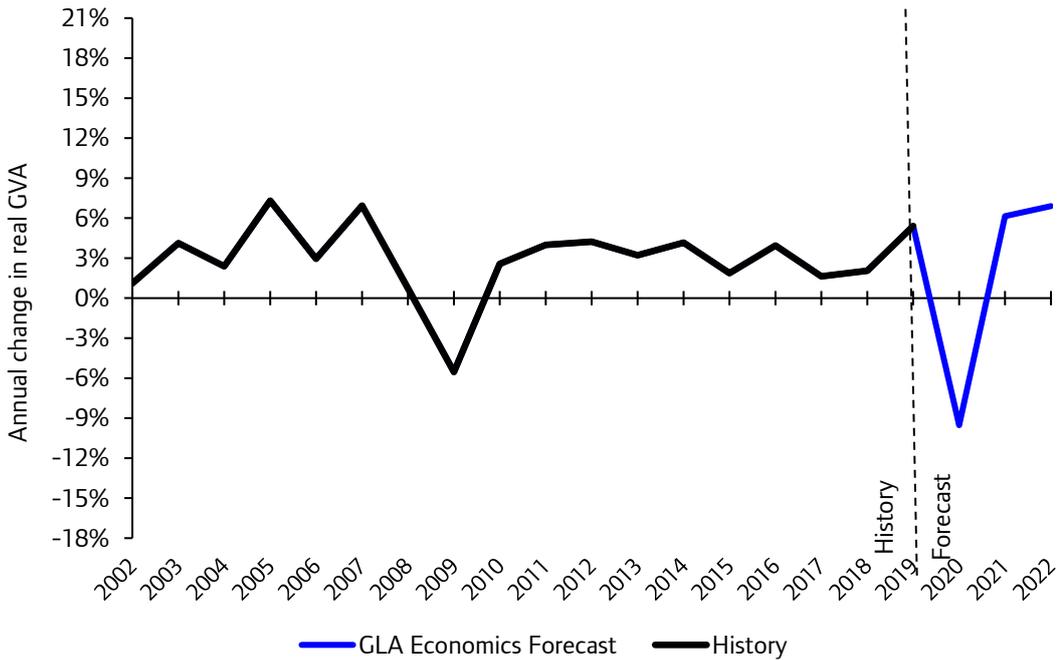
In conclusion, the global economic environment has become extremely uncertain since the first quarter of 2020 in light of the COVID-19 outbreak (as shown in the evolution of our London Forecast (Figures 1.4 & 1.5)). There will be a historically unprecedented drop in UK output this year (Figure 1.1). Most forecasters expect a continued bounce back in 2021, despite any disruption from the end of the transition period with the EU, thus returning to pre-crisis levels in the medium-term (Figure 1.3). The effectiveness of the unprecedented fiscal and monetary policies put in place by national and international public authorities are likely to mitigate some of the negative economic effects of the COVID-19 shock especially in terms of employment (Figure 1.2). All sectors will be affected although Accommodation and food services, Other services, and Arts, entertainment, and recreation will most likely continue to be the most hit as they are the most affected by social distancing. This is also the picture we can draw for London's economy in broad terms at this moment. Production capacity, internal and external demand have fallen unprecedentedly in the second quarter of 2020, and there is likely to be a further fall in the fourth quarter. We expect a continued recovery in 2021. However, it can be expected that London's economy will not recover its previous 'normality' until a vaccine is available for everyone.

¹⁶ US Bureau of Labor Statistics (2020). '[Employment Situation Summary](#)'. 6 November 2020.

¹⁷ On 28 May, the size of the FED balance sheet had already tripled when compared to the peak of the 2008-9 financial crisis.

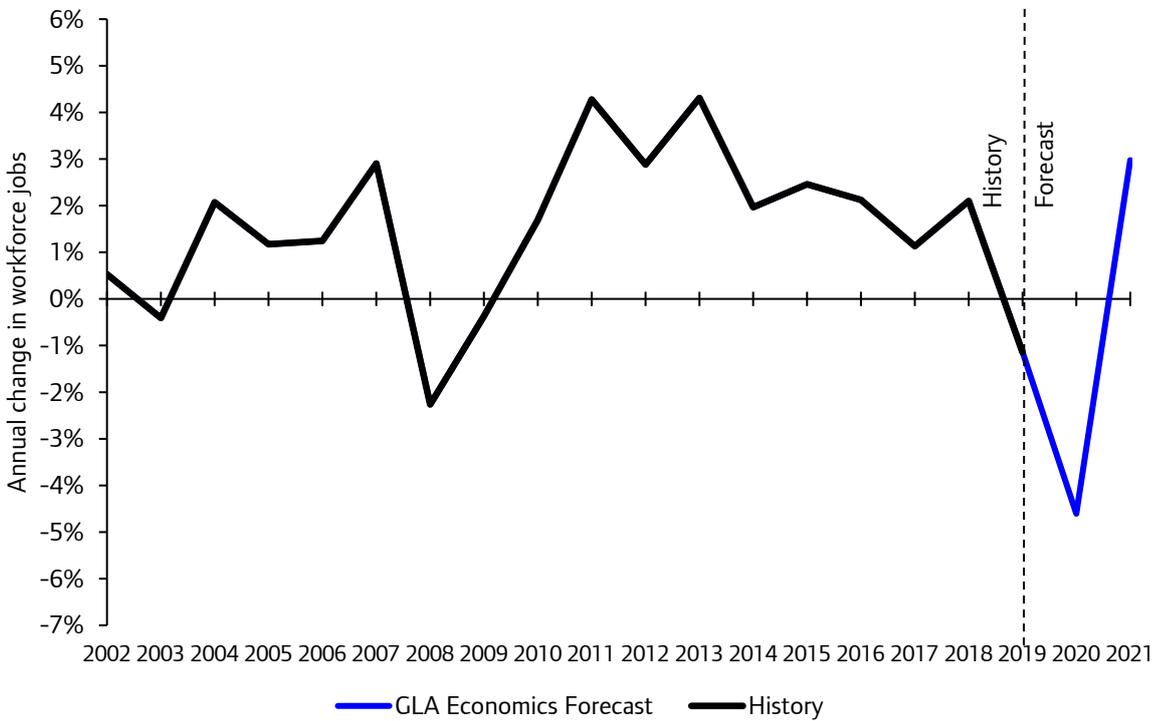
¹⁸ London Datastore (2020). '[Macroeconomic scenarios for London's economy post COVID-19](#)'.

Figure 1.1: Historic and forecast output growth (GLA Economics reference scenario)



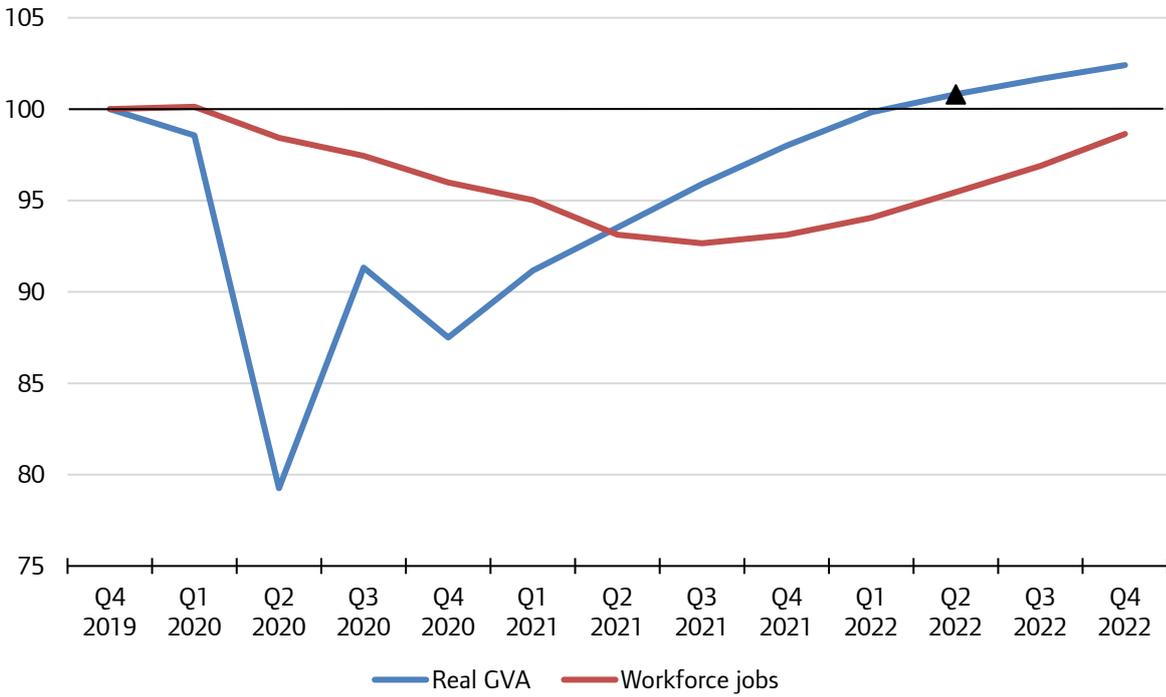
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.2: Historic and forecast employment growth (GLA Economics reference scenario)



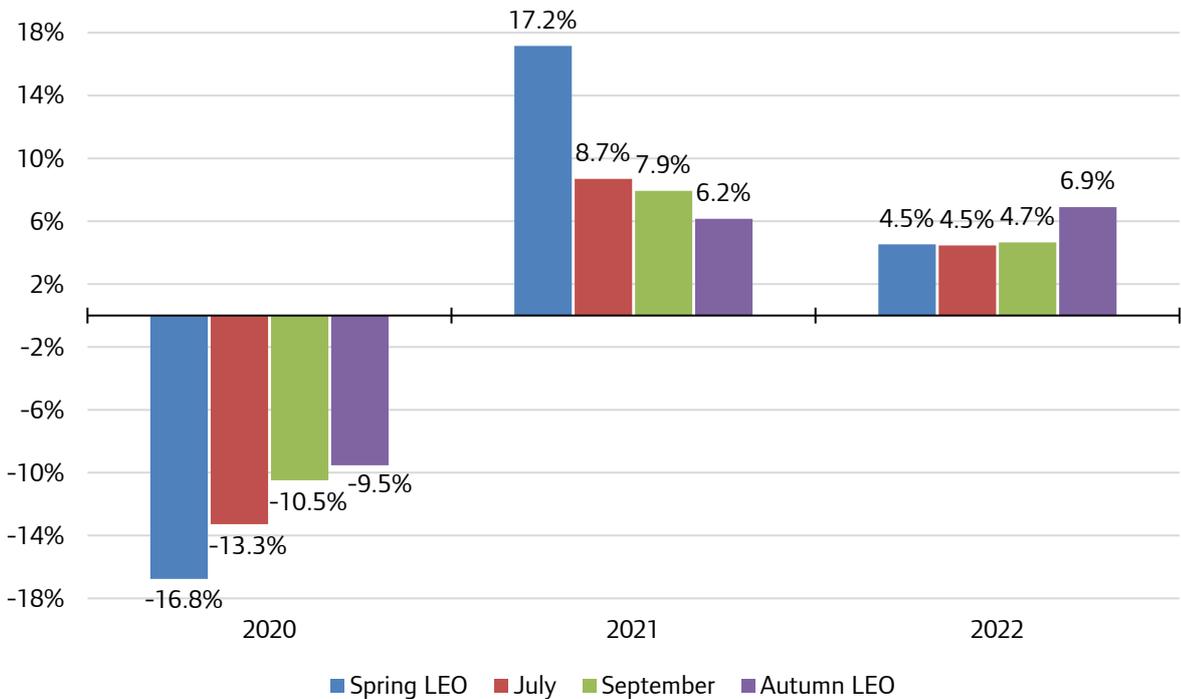
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.3: Expected shape of the economic recovery under the GLA Economics reference scenario (index)



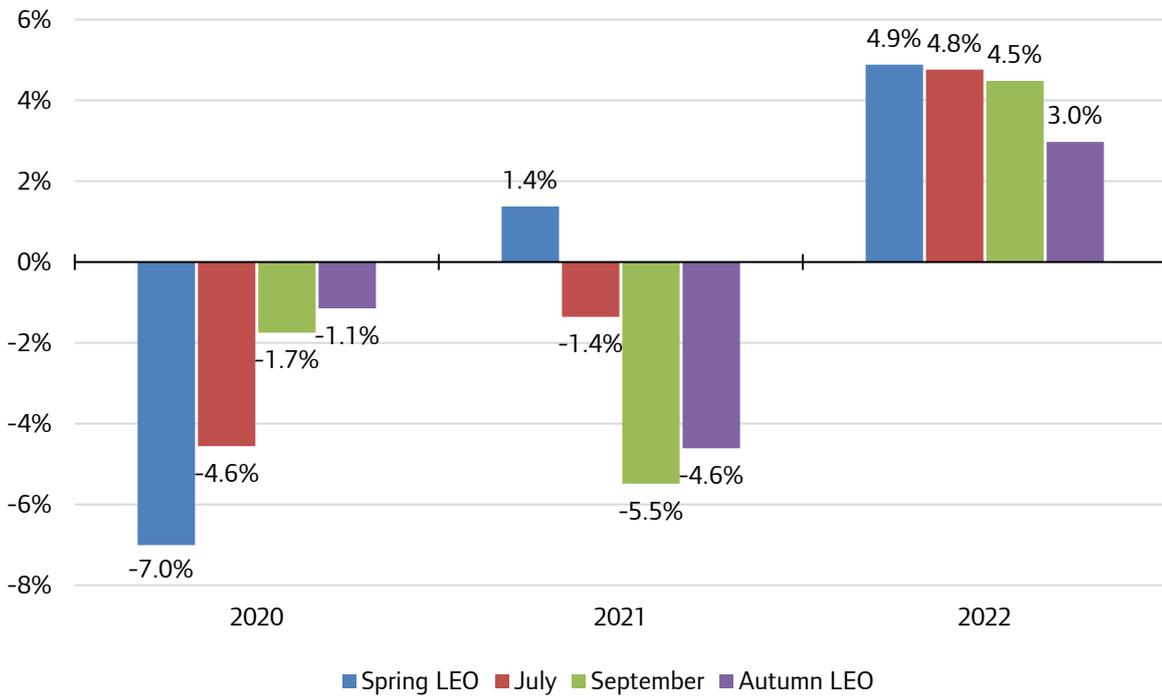
Source: GLA Economics

Figure 1.4: Development of reference scenarios for London annual real GVA growth rates 2020-2022



Source: GLA Economics

Figure 1.5: Development of reference scenarios for London annual employment growth rates 2020-2022



Source: GLA Economics

2. Introduction

The autumn 2020 edition of London's Economic Outlook (LEO) is GLA Economics' 37th London forecast. The forecasts are issued roughly every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of the recent economic conditions in London, the UK and the world economies and includes analysis of important events, trends and risks to short and medium-term growth ([Chapter 3](#)).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk ([Chapter 4](#)). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London ([Chapter 5](#)).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast is based on an in-house model built by GLA Economics¹⁹. Before that, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)²⁰
- Experian Economics (EE)
- Oxford Economics (OE)

Economic forecasting is not a precise science. Further these projections unlike previous GLA Economics forecasts are a scenario consistent with the BoE's COVID-19 forecast published in November²¹ and OBR scenario published also in November²² and provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen if this scenario came to pass. There are thus significant risks, mainly on the downside, associated with this scenario.

¹⁹ The forecast model used in this forecast has updated the model described in this publication: Douglass, G & van Lohuizen, A (2016). '[The historic performance of the GLA's medium-term economic forecast model](#)', GLA Economics Current Issues Note 49, November 2016. A description of this new forecast model can be found in Orellana, E. (2020) '[The new GLA Economics forecast models for London's economy](#)', GLA Economics Working Paper 98.

²⁰ CEBR does not provide a forecast for household expenditure in London.

²¹ Bank of England (2020). '[Monetary Policy Report – November 2020](#)'. November 2020.

²² OBR (2020). '[Economic and fiscal outlook](#)'. November 2020.

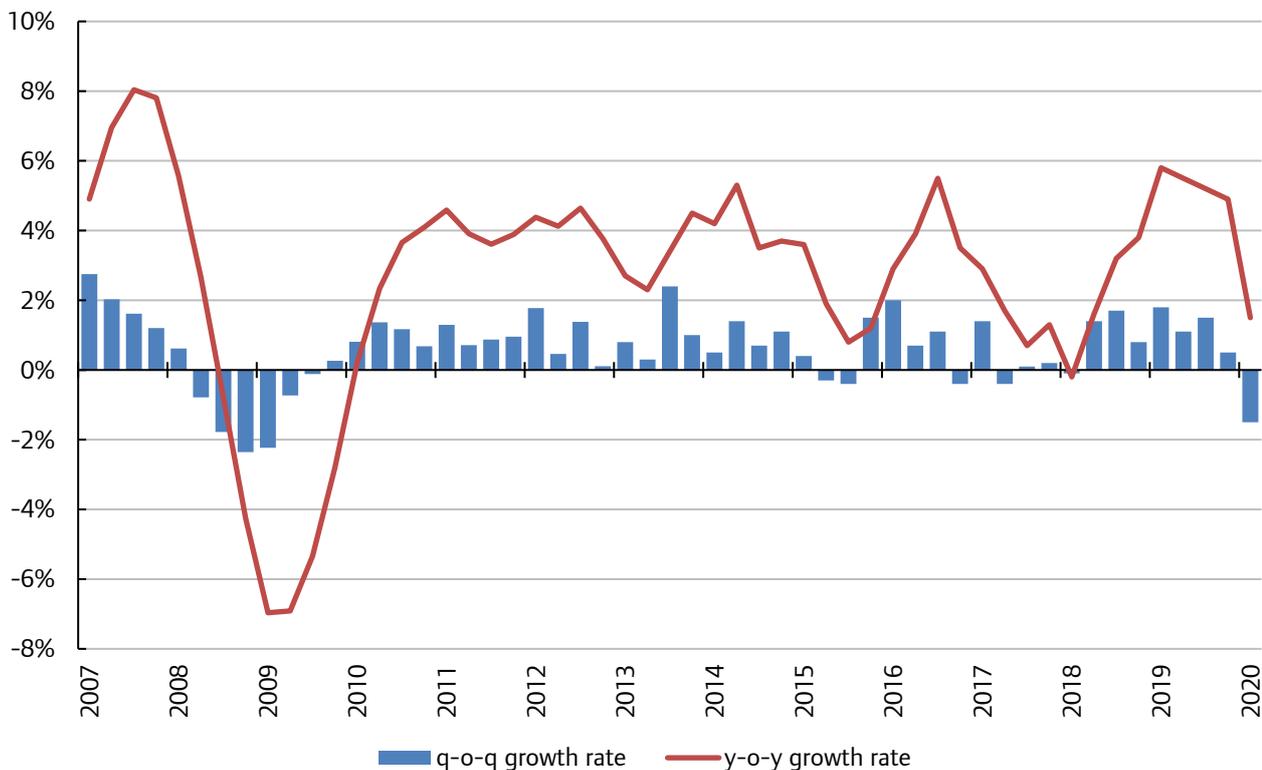
3. Economic background: London is facing an unprecedented economic shock this year and the short-term outlook remains unusually uncertain

This Chapter provides an overview of recent developments in the London, UK and world economies, as well as risks to the London economy.

3.1 London's economy

According to the latest regional data by the ONS, London's economy – as measured by real gross value added (GVA) – shrank by 1.5% between Q4 2019 and Q1 2020, which is equivalent to an annual growth rate of 1.5% in the first quarter of the year. As can be observed from Figure 3.1, the quarter-on-previous-quarter (q-o-q) growth rate represents the largest output contraction in the capital since the 2008-2009 financial crisis and yet only captures the initial economic effects of the COVID-19 pandemic. However, this perturbation was smaller in London than in the UK's economy as a whole, where the above-mentioned rates were -2.5% and -2.2%, respectively, in the first quarter of the year.

Figure 3.1: Real GVA in London (Q1 2007 – Q1 2020)



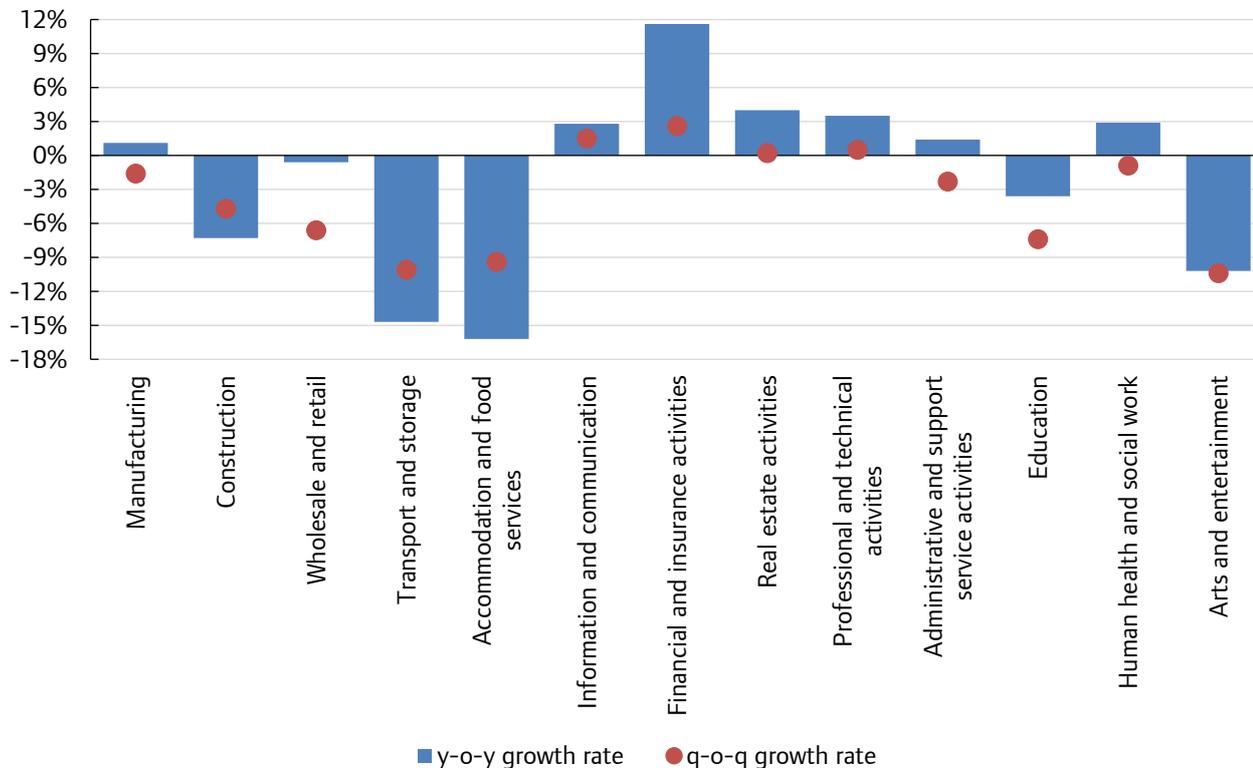
Source: GLA Economics based on ONS - UK regional GVA data.

The relative resilience of London's economy to the initial impact of COVID-19 may be explained by the sectoral composition in the capital. Figure 3.2 indicates that the main four industries in terms of their contribution to output²³ – i.e., Real estate activities, Financial and insurance activities, Professional and scientific/technical activities, and Information and communication activities – all registered positive rates of growth in Q1 2020 compared to both the previous quarter and the same quarter in the previous year. As an

²³ Representing 57.6% of London's real GVA in 2018.

example, the Finance and insurance industry showed a particularly strong expansion in terms of real GVA in the first quarter of 2020 (11.6% annually and 2.6% compared to Q4 2019).

Figure 3.2: Real GVA by industry* in London in Q1 2020



Source: GLA Economics based on ONS – UK regional GVA data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.

Yet, the initial shock produced by the spread of COVID-19 was felt across the whole economy and some London industries were significantly affected by it. Figure 3.2 highlights the most hit sectors in terms of real GVA in the first quarter of the year - compared to Q1 2019 -: Accommodation and food services (-16.2%), Transport and storage (-14.7%), Arts and entertainment/recreation (-10.2%), Construction (-7.3%) and Education (-3.6%). Also, Wholesale and retail activities, Administrative and support services, and Manufacturing contracted by 6.6%, 2.3% and 1.6%, respectively, compared to Q4 2019. Therefore, the sectoral picture indicates that London's economy was not homogeneously impacted by the COVID-19 outbreak in the first quarter of the year: while the main industries in the capital showed some resilience, other activities were notably damaged.

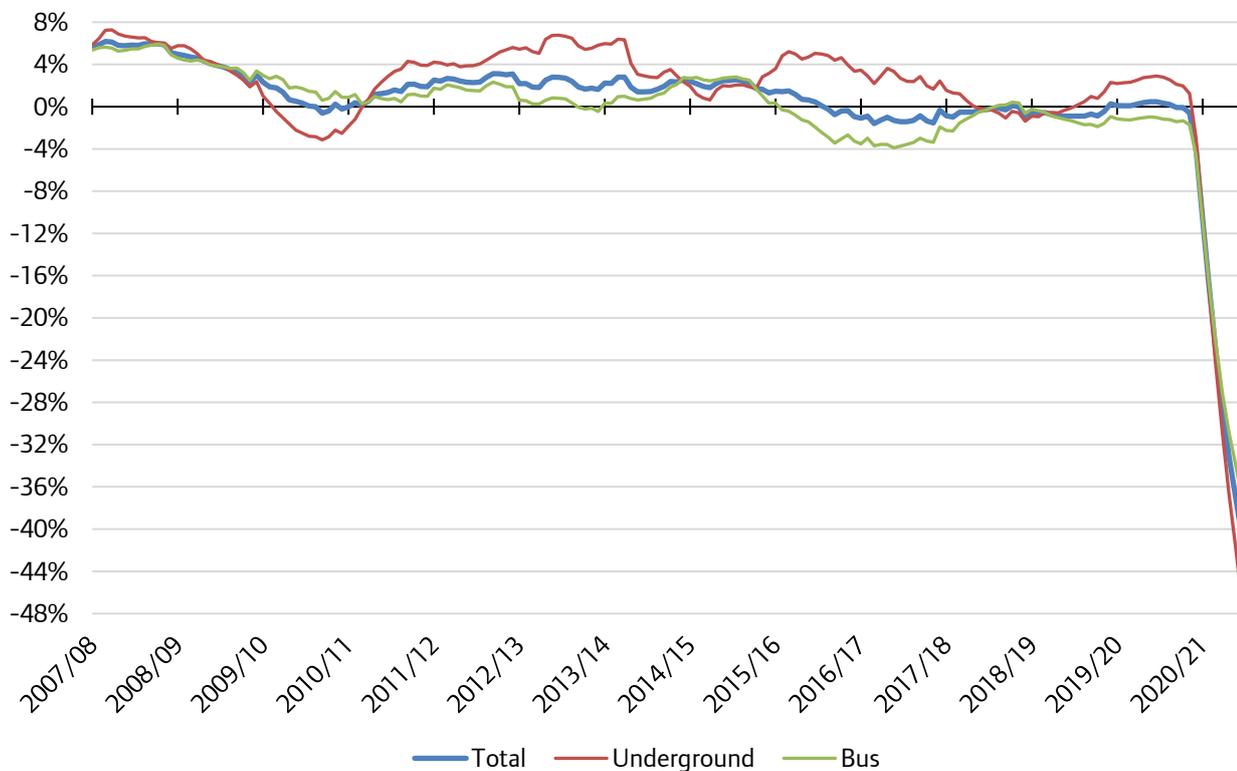
Beyond Q1 2020, external forecasters²⁴ and our analysis of the available faster macroeconomic indicators for London point to larger and unparalleled negative economic impacts over the rest of the year and especially between April and June, with November also likely to see further negative effects when the data becomes available. The intensity of these effects not only seem to correlate with the degree of uncertainty perceived by economic agents but also with the intensity of Government restrictions on mobility and economic activity

²⁴ See [Chapter 4](#) of this report for more detail.

in order to control the spread of the virus²⁵. For further details on the Government's lockdown measures in England and economic policy response for the UK see [Box 3.1](#).

In this context, public transport use can be a handy indicator to track the state of the London economy. For example, more people travelling in London could reflect more people commuting to work because there are more jobs being undertaken at workplaces. Alternatively, it could reflect increased leisure activities like shopping, which might indicate an increase in household spending. Having noted this, the variation of the twelve-month moving average in total passenger journeys in London's public transport had been increasing throughout 2019 before starting to fall slightly by the end of the year and the beginning of 2020. However, this indicator sunk from March and has remained at historic lows since then due to the persisting limitations on the use of public transport in London (Figure 3.3). As a reference, in the period 20 September to 17 October 2020 the actual number of passenger journeys in London's public transport was 51% below the equivalent period in the previous year.

Figure 3.3: Variation (%) of the 12-month moving average in public transport passenger journeys in London



Source: GLA Economics based on Transport for London data. Last data point is the 28-day period ending on 17 October 2020.

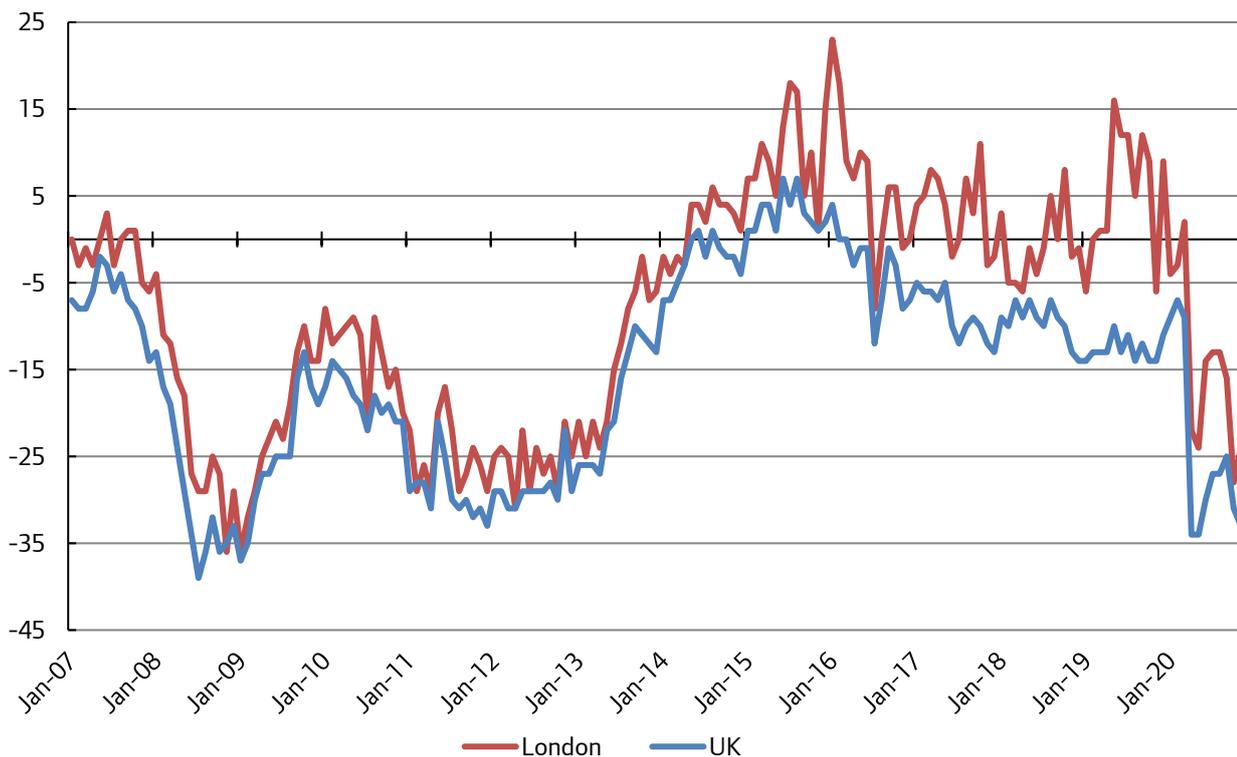
The decline in transport mobility is one factor that negatively affects London's economy through lower spending in London's Central Activity Zone. But other factors such as the current uncertainty on the control of the pandemic, the speed and size of the economic recovery and the UK's future commercial relationship with the EU also have a relevant impact on consumer expenditure. The consumer confidence index is a reliable indicator to measure how private consumption in London is being affected by overall uncertainty²⁶.

²⁵ This is what the evidence for the whole UK indicates: UK's real GDP contracted by 19.8% in Q2 compared to the first quarter of the year due to the first national lockdown and then expanded by 15.5% in the following quarter as restrictions eased.

²⁶ The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Looking at this indicator, the virus outbreak and the consequent first lockdown caused consumer confidence in London to drop sharply in April and May (Figure 3.4). As lockdown eased in June, this index recovered slightly for some months - although always remaining negative - but the second wave of infections and the announcement and subsequent introduction of the new lockdown sunk the London index to eight-year lows in October and November. These recent figures suggest that London consumers are still either very worried about their household finances or simply opting to save more as a precautionary behaviour while the present climate of uncertainty continues. On the positive side, data for London is usually less pessimistic than for the UK in terms of consumer confidence and the evidence provided in Figure 3.4 confirms this fact for the current crisis as well.

Figure 3.4: Consumer confidence index for London and the UK



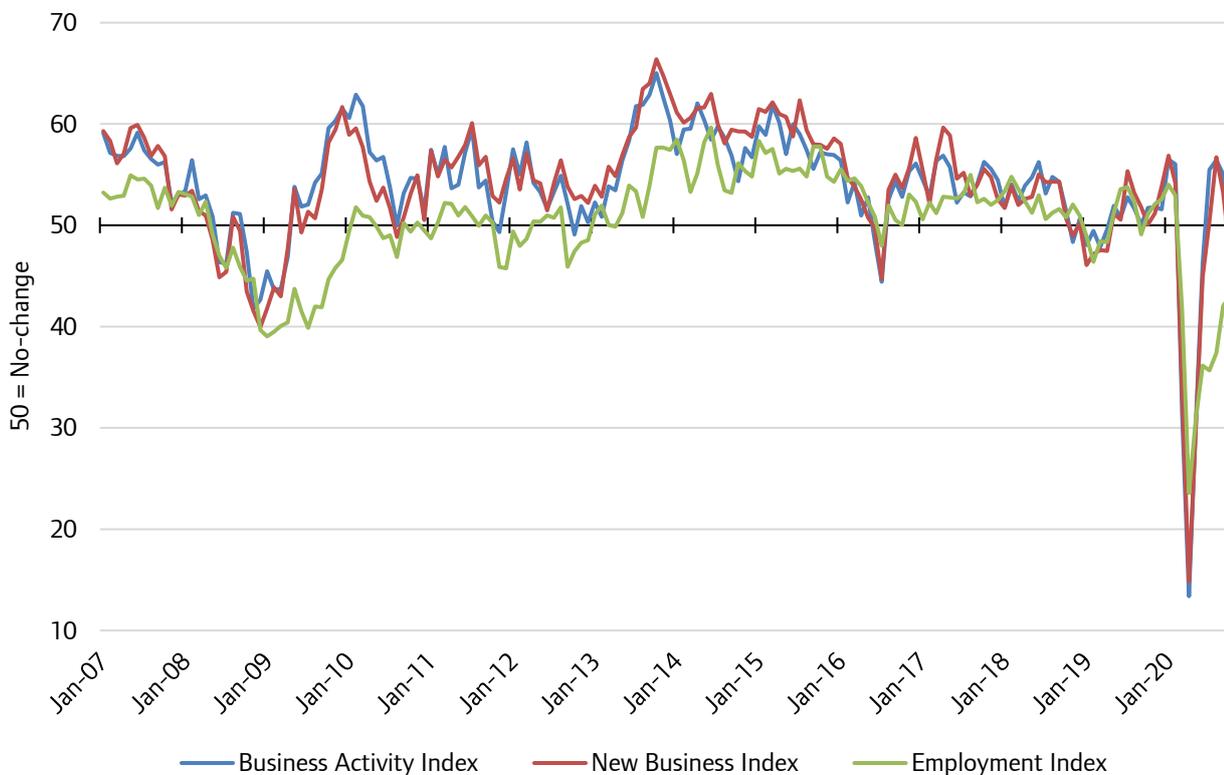
Source: GLA Economics based on GfK-NOP data. Last data point is November 2020.

Another high frequency indicator that correlates strongly with economic activity is the Purchasing Managers' Index (PMI) survey which focuses on the sentiment of businesses in London²⁷. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators like workload and employment. PMI data in 2019 remained slightly above 50 on average - indicating slightly expanding conditions. A few months later, the emergence of COVID-19 dragged down these indicators to all-time lows in March and April 2020 but a rapid recovery started in May and prolonged over the summer (Figure 3.5). In fact, PMI Business Activity and PMI New Business indices returned to pre-crisis levels in August. However, a new downward trend can be observed in these in the September and October data suggesting that the economic recovery might have been slowing in the last months of the year even before

²⁷ PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading is away from the 50 mark, the faster the rate of growth or decline.

the November lockdown. Conversely, the PMI Employment Index in London has remained very subdued since March but has showed an upward trend since May.

Figure 3.5: London PMI Business Activity, New Business and Employment Indices



Source: GLA Economics based on IHS Markit data. Last data point is October 2020.

In line with the PMI Employment Index, the most recent labour market data for London confirms that employment is recovering more slowly than economic activity in the capital. The introduction of the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS) by the Government have certainly succeeded in supporting the employment rate in the capital around pre-crisis levels (67.0%). But even with extraordinary public support the impact of the current economic shock on the labour market is already visible. The unemployment rate in London has continuously risen from 4.3% in Q4 2019 to 6.0% in Q3 2020, its highest level since Q1 2017. As a partial result of this, the claimant count²⁸ has increased by 158% over the same period. Although the number of furloughed workers in London has been continuously falling since June – the take-up rate was 10% on 30 September –, the capital has reduced this figure less than any other region in the UK so far (as a share of its population). The same pattern is visible on SEISS data which shows a take-up rate of 72% as at 31 October, indicating how many self-employed in London continue to rely on public support. In this context, recent Resolution Foundation and GLA surveys confirm that the decline in the proportion of furloughed workers in London since June has produced – on average – a reduction in the pay and hours worked of the returning workers, as well as an increase in redundancy rates.

This weaker recovery of London's labour market in relation to economic activity will likely be confirmed by job figures, although official data for the third quarter of 2020 are not available yet. In terms of the initial

²⁸ Before the Government introduced the CJRS, claimant count closely matched unemployment because to be included in the set of data one must be available for work and searching for work. Now, the measure has become less reliable because it includes those who could be on furlough or temporarily detached from their employer.

shock, the number of workforce jobs in London (regardless of whether they are taken by London residents or not) only grew by 0.1% between the last quarter of 2019 and the first quarter of 2020 – this rate had been 1.4% the previous year. Jobs then declined by 1.7% between Q1 and Q2 2020 which represents the deepest quarter-on-quarter contraction since the financial crisis. Overall, these rates imply that, despite the public sector extraordinary interventions²⁹, there was essentially no net job creation in Q1 2020 and around 104,150 net jobs were lost in the capital during the second quarter of the year as a result of the COVID-19 impact³⁰.

Yet, as with GVA, the impact of the current crisis on jobs is being felt differently across London industries. Looking at the sectoral analysis of workforce jobs in the first half of the year (Table 3.1), while some industries such as Manufacturing, Real estate, and the Arts, entertainment and recreation activities sectors registered good growth between pre-crisis (Q4 2019) and Q2 2020 others sectors such as the Construction sector (-7.7%), Administrative and support services (-6.8%), Accommodation and food service activities (-6.4%), and the Professional, scientific and technical activities sector (-3.9%) had deep contractions. The plausible assumption that a perturbation in the labour market occurs with a certain delay with respect to the perturbation in the real economy – especially in the current context of large interventions to support the economy – might explain, for example, why the Manufacturing and Arts, entertainment and recreations sectors which were very heavily hit in terms of GVA have showed aggregate jobs growth. The opposite is seen with the Professional, scientific and technical activities industry data meaning that GVA data for Q2 is needed to produce a complete analysis of the initial impact of the pandemic on London industries. Either way based on the limited evidence available so far (and based on Figure 3.2 and Table 3.1) we can draw the following conclusions: First, the sectors of Construction; Accommodation and food services; and Transport and storage were the most hit sectors in terms of both output and jobs during the initial phase of the COVID-19 crisis in London. Second, the Arts, entertainment and recreation industry also suffered a massive hit in GVA over the second quarter of the year. And third, the Real estate; Information and communication; and Financial and Insurance industries seemed – overall - the most resilient sectors to the initial economic shock in the capital.

²⁹ [Box 3.1](#) in this Chapter summarises these public interventions to date.

³⁰ For further detail on London labour market experimental statistics up to q3 2020 see the latest '[Monthly Labour Market Update](#) for London' by GLA Economics.

Table 3.1: Workforce jobs by industry* in London in Q1 and Q2 2020

Industry	Growth rate (%)			
	Q1 2020 on Q4 2019	Q2 2020 on Q1 2020	Q2 2020 on Q4 2019	Q2 2020 on Q2 2019
Manufacturing	9.1	-2.5	6.3	7.3
Construction	-6.8	-1.0	-7.7	-6.5
Wholesale and retail trade; repair of motor vehicles	-0.3	0.8	0.5	1.2
Transportation and storage	-1.2	1.9	0.7	-5.5
Accommodation and food service activities	-0.7	-5.7	-6.4	-5.7
Information and communication	1.4	-1.1	0.3	8.2
Financial and insurance activities	-1.0	0.8	-0.2	-1.9
Real estate activities	1.9	0.8	2.7	32.5
Professional, scientific and technical activities	2.1	-5.8	-3.9	-4.9
Administrative and support service activities	-1.4	-5.5	-6.8	-5.7
Education	-0.5	2.1	1.6	8.1
Human health and social work activities	0.8	-1.1	-0.3	0.2
Arts, entertainment and recreation	4.0	3.5	7.7	11.7
All industries	0.1	-1.7	-1.6	0.2

Source: GLA Economics based ONS – Labour Force Survey data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.

The unequal economic impact across London industries seems to be the consensus among external analysts, along with the overall picture of a recovery starting in the third quarter of the year and huge uncertainty over Q4 2020 and the beginning of 2021. As an example, the London Chamber of Commerce and Industry in its Capital 500 Quarterly Economic Survey for Q3 2020 stated that “London’s economy showed tentative signs of recovery over the summer, as the lockdown measures were eased and Government support schemes encouraged increased consumer spending. This was reflected in higher business confidence, sales, and exports by London firms. However, forecasts for Q4 are now becoming more pessimistic with some economists already expecting a move to negative growth again. Problems remain in many sectors and the latest restrictions announced by Government mean that those London industries will continue to suffer”³¹. In this direction, GLA Economics expects the capital to be leading the UK economic recovery owing to the resilience of its main industries but another key sector, tourism, still remains practically sunk with hotel occupancy rates at 30%³² and airport passengers around 80% below pre-crisis levels³³. In between, we can expect other London industries to be more sensitive to Government support or restrictions so their performance is likely to remain volatile for some time. This might be the case, for example, for the Real estate sector as can be inferred from the latest Royal Institution of Chartered Surveyors (RICS) Housing

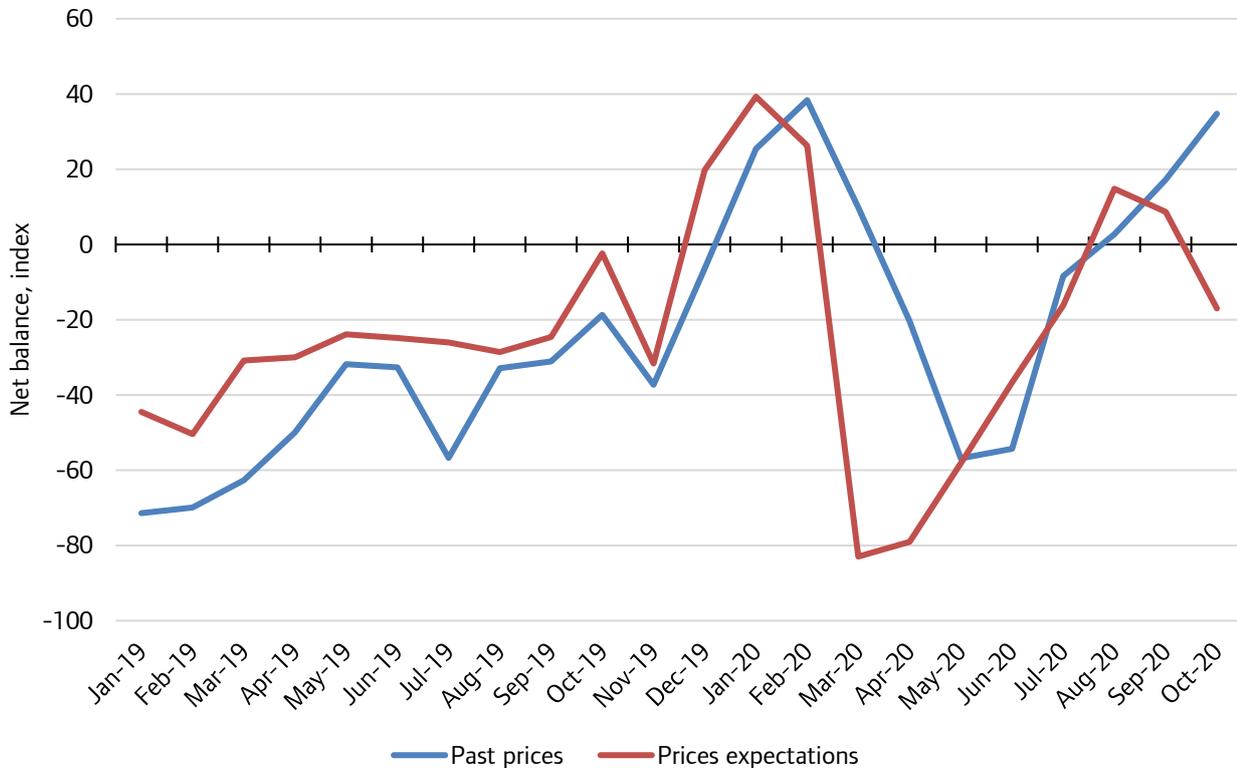
³¹ London Chamber of Commerce and Industry – (2020) [Capital 500 Quarterly Economic Survey Q3 2020](#).

³² Source: Visit Britain

³³ Source: Civil Aviation Authority

Market Survey. In October - as restrictions tightened -, this survey presented negative expectations for London housing prices after a solid recovery in terms of both past prices and expectations seen in the previous months (see Figure 3.6).

Figure 3.6: RICS house prices net balance index for London, change during last three months



Source: GLA Economics based on RICS data. The net balance index measures monthly the proportion of property surveyors reporting a rise in prices minus those reporting a decline in the last three months.

Beyond the unprecedented challenge that London's economy is facing this year and its unclear outlook, it seems evident that a long-lasting scarring of the economy cannot be ruled out if the existing uncertainty on the control and end of the pandemic and the deterioration of economic activity persist for much longer³⁴.

Box 3.1: List of mainly economic policy measures taken by UK authorities to mitigate the negative impact of COVID-19 until 2 December

This box collects a chronological overview of the mainly economic initiatives announced by the UK Government and the Bank of England in response to the COVID-19 pandemic. All these initiatives are unprecedented in the UK's modern history and complement each other with the aim of providing financial support to households, businesses and preserving jobs and economic activity while the existing COVID-19 crisis continues. The list of interventions is described below:

- 11 March:** The Bank of England cuts its baseline interest rate from 0.75% to 0.25%, back down to the lowest level in its history. It also creates the Term Funding Scheme which will offer four-year funding to commercial banks at very close to Bank rates. Additional funding will be also available for banks that increase lending to SMEs. Additionally, the Chancellor of the Exchequer presents the

³⁴ See Bank of England, Monetary Policy Report November 2020.

Government's 2020 budget which includes £30bn in measures to protect the economy from coronavirus.

- **17 March:** The Chancellor announces that £330bn will be made available in loan guarantees for businesses affected by the virus (COVID Corporate Financing Facility).
- **18 March:** Businesses in the retail, hospitality and leisure sectors in England will not have to pay business rates for the 2020 to 2021 tax year.
- **19 March:** The Bank of England cuts interest rates further to 0.1% – a historic low – in order to boost economic activity through cheaper loans for businesses and households.
- **20 March:** The Chancellor announces the new Coronavirus Job Retention Scheme (CJRS) with which Government will pay 80% of wages for employees not working, up to £2,500 a month. This programme was initially intended to end by 31 May. Alongside this, under the COVID-19 Corporate Financing Facility (CCFF), the Bank of England will buy short-term debt from large companies for at least 12 months.
- **23 March:** Boris Johnson announces the first lockdown, applicable to the entire UK. People are instructed to stay at home with very few exceptions and all non-essential shops, libraries, places of worship, playgrounds and outdoor gyms must close.
- **24 March:** The 'mortgage payment holidays' is set by the Chancellor until 31 October.
- **26 March:** The Chancellor announces the new Self-Employed Income Support Scheme (SEISS) with which some self-employed will be paid 80% of profits, up to £2,500 a month, to help them cope during the economic crisis triggered by COVID-19. Besides this, UK VAT-registered businesses will be entitled to defer VAT payments until 30 June 2020.
- **3 April:** A new Coronavirus Large Business Interruption Loan Scheme (CLBILS) is launched to help medium and large-sized businesses to access loans and other kinds of finance up to £200m until 31 January 2021.
- **17 April:** The Chancellor extends the subsidised wage scheme for furloughed workers for one month initially, to the end of June.
- **10 May:** The first national lockdown starts to ease from this date and over the following two months.
- **12 May:** The Chancellor extends the CJRS until October.
- **14 May:** The Office for Budget Responsibility states that the cost to the Government of combating the coronavirus pandemic had risen to £123.2bn up to that moment.
- **22 May:** The Office for National Statistics reports that Government borrowing rose to £62bn in April, the highest monthly figure on record, in order to fund the already announced economic measures to ease the COVID-19 impact.
- **29 May:** The SEISS is extended until 31 October.
- **18 June:** The Bank of England announces plans to inject an extra £100bn into the UK economy to help fight the downturn precipitated by the pandemic.
- **6 July:** The UK Government announces grants and loans of £1.57bn to support theatres, galleries, museums and other cultural venues affected by the COVID-19 outbreak. Alongside this, a new £111m scheme to help firms in England will provide an extra 30,000 trainee places.
- **8 July:** The Chancellor unveils an extra £30bn spending package aimed at mitigating the economic impact of the COVID-19 pandemic, including a temporary reduction in VAT worth £4bn until 12 January 2021 for the hospitality sector, a scheme to pay firms £1,000 for each employee brought back from furlough, a scheme to get young people into employment, and a temporary rise in the stamp duty threshold.
- **29 July:** The UK Government announces a £500m scheme to help the film and television industry with the costs of projects delayed or abandoned because of the COVID-19 pandemic.
- **1 August:** The level of grant that employers can receive under the CJRS will be reduced each month. To be eligible for the grant, furloughed employees will be paid 80% of their wages, up to a cap of

£2,500 per month but with progressively bigger contributions from employers. Wage caps are proportional to the hours an employee is furloughed.

- **3 August:** The month-long "Eat Out to Help Out" scheme which was announced in July begins, offering a 50% discount on meals at participating establishments, up to a maximum of £10 on Mondays-Wednesdays. This measure has cost the Government about £849m.
- **24 September:** The Chancellor announces the Job Support Scheme as a replacement to the furlough scheme, scheduled to begin on 1 November. Under the proposed scheme, people who work reduced hours will receive Government help to top up their wages to two-thirds of their full pay. The Chancellor also announces extension (at a reduced level) of help for self-employed people, longer repayment periods for business loans, and an extension to the temporary reduction in VAT for hospitality and tourism companies.
- **22 October:** The Chancellor increases support for jobs and workers affected by COVID restrictions, with employers paying less and employees able to work fewer hours before qualifying for extra financial help.
- **31 October:** Boris Johnson announces a second lockdown in England from 5 November to 2 December.
- **1 November:** Mortgage payment holidays for people financially impacted by the COVID crisis are extended until 31 March 2021, having been scheduled to expire on 31 October 2020. The CJRS is also extended until the same date although eligibility criteria changes.
- **12 November:** Businesses that were open as usual but were then required to close between 5 November and 2 December 2020 due to the national restrictions imposed by Government may be eligible for additional public grants.
- **25 November:** The Chancellor announces the Comprehensive Spending Review 2020. With it, the Government is investing an additional £3.7bn to build on the commitments made in the Plan for Jobs. £519m of funding in 2021-22 to support the continued delivery of COVID-19 loans were also announced. Freeze to the business rates multiplier in 2021-22 will save businesses in England £575m over the next five years. Spending on measures to cope with the COVID-19 pandemic will result in total public spending exceeding £1 trillion this year.
- **2 December:** End of the second lockdown in England, which returns to an overall more restrictive Tier system than the previous one.

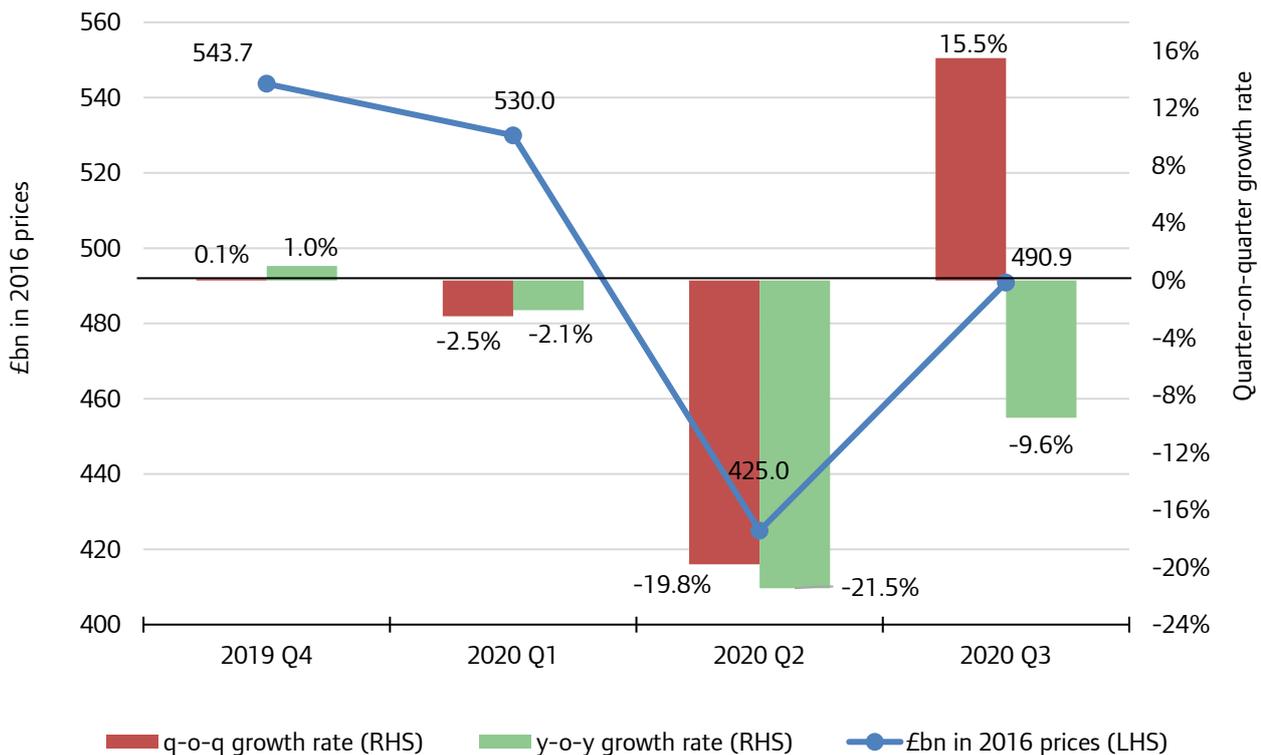
3.2 The UK economy

During the first half of the year – and especially from late March to late May –, the UK economy experienced the largest contraction of real GDP since ONS records are available (-2.5% in Q1 2020 and -19.8% in Q2 2020, when compared to the previous quarter). The peak-to-trough fall was 50% larger than during the 2008-2009 financial crisis. This historic decline in national output was the result of the initial outbreak of COVID-19 and the public restrictions taken to contain its spread.

As lockdown rules were eased from June economic activity started to recover - up to some extent - over the summer, led essentially by private consumption. As an example, retail sales in the third quarter returned to above their level in February. Beyond this, it is thought that public spending through initiatives such as the Government's Eat Out to Help Out Scheme had a positive impact on the pickup of household expenditure during the summer. Similarly, housing transactions, mortgage approvals, and house price inflation improved strongly in that period. However, the recovery in business investment was much weaker than that seen in consumption since June. Uncertainty about future demand, economic and COVID-19-related developments and the final trade agreement between the UK and the EU may be discouraging businesses from making

new investments in the country. This is evidenced from a BoE survey³⁵ which shows that businesses' expectations for sales next year continue to decline while almost 50% of firms reported Brexit as one of their top three sources of uncertainty at the moment. In this context, the commercial balance has not contributed to the UK economic recovery so far because of the fragile international economy. As a result of all these dynamics, UK real GDP increased by 15.5% on the quarter in Q3 2020 but still remained 9.7% below pre-crisis levels (Figure 3.7). While, all annual rates of GDP growth have been negative in 2020 so far.

Figure 3.7: UK real GDP (Q4 2019 – Q3 2020)



Source: GLA Economics based on ONS – UK National Accounts data.

Looking at the sectoral breakdown during the first three quarters of the year, the impact of COVID-19 on the UK economy took place at varying rates of speed:

- In Q1 2020, real output had already contracted up to a certain extent - in annual terms - across all major parts of the economy, with the only exceptions of the Real estate activities and Professional, scientific and technical activities sectors.
- In the second quarter of the year, the negative impact was historic in all industries without exception, although some sectors such as Real estate activities and Financial and insurance activities showed relative resilience (-1.9% and -4.4% declines in annual terms, respectively). In that quarter, the most heavily hit industries at the national level were those directly affected by the lockdown and were Accommodation and food service activities (-87%), Arts, entertainment and recreation (-43.9%), and Construction (-38.2%) although a majority of industries registered a real GDP fall larger than 20% when compared to the same quarter in 2019 (Table 3.2).
- Over the third quarter of the year, economic activity started to recover from the large shock in Q2 but still showed negative rates in all industries when compared to Q3 2019 – with the only exception of the

³⁵ Bank of England – [Decision Maker Panel Survey for October 2020](#).

Wholesale, retail trade and repair of motor vehicles sector which was at a neutral rate. This initial recovery did not happen at the same speed in all parts of the economy. Accommodation and food service activities; Arts, entertainment and recreation; Administrative and support services, and Human health and social work activities still registered GDP declines by more than 20% in annual terms in Q3 2020 while others such as Real estate activities and Financial and insurance activities showed again much smaller impacts in annual terms, i.e., very strong growth on the quarter.

Table 3.2: UK real GDP by industry* in 2020, annual growth rate (%)

Industry	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Manufacturing	-2.2	-5.3	-23.6	-8.8
Construction	0.4	-4.0	-38.2	-12.5
Wholesale and retail trade; repair of motor vehicles	1.3	-2.9	-23.3	0.0
Transportation and storage	-0.2	-4.4	-32.6	-16.5
Accommodation and food service activities	0.8	-9.6	-87.0	-28.4
Information and communication	4.5	-0.3	-12.1	-8.3
Financial and insurance activities	-2.6	-1.0	-4.4	-3.3
Real estate activities	0.6	0.9	-1.9	-1.4
Professional, scientific and technical activities	1.9	2.0	-16.9	-11.0
Administrative and support service activities	1.6	-3.0	-32.3	-23.1
Education	3.4	-6.2	-32.7	-16.1
Human health and social work activities	1.1	-3.2	-29.6	-22.0
Arts, entertainment and recreation	2.2	-3.3	-43.9	-25.5
All industries	1.0	-2.1	-21.5	-9.6

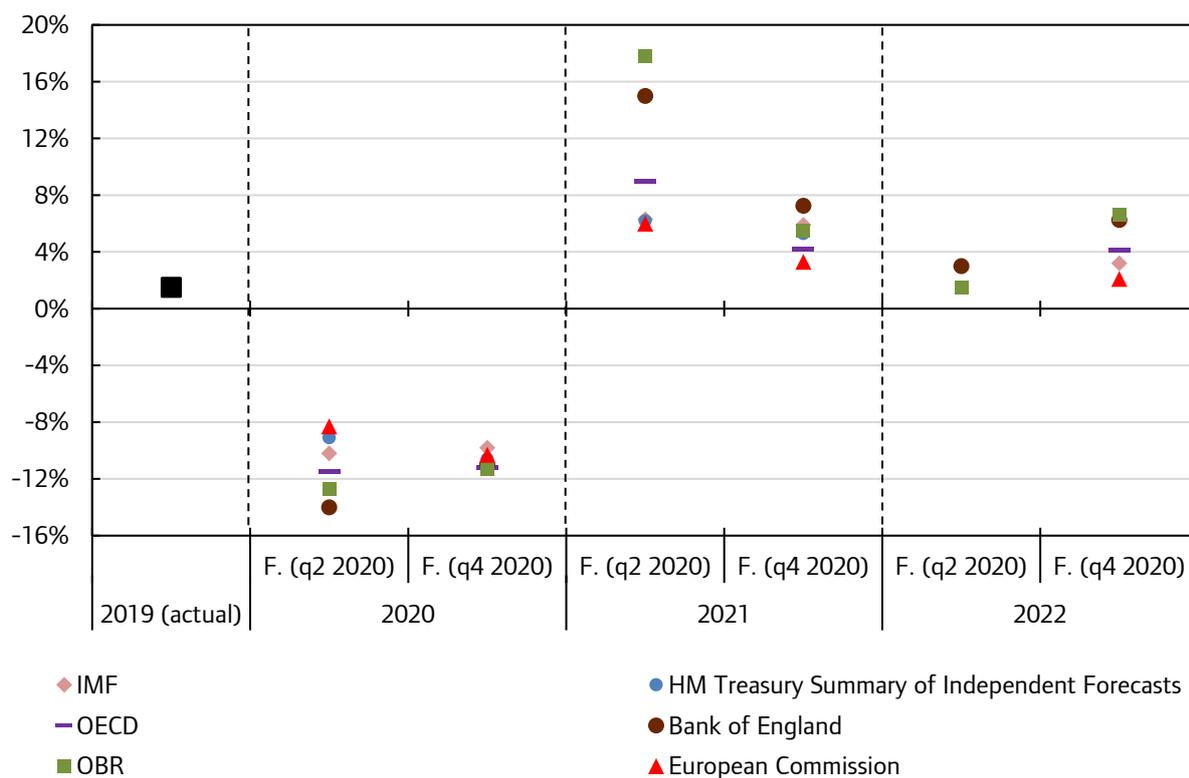
Source: GLA Economics based on ONS – UK National Accounts data. *The following smaller industries have been excluded for simplification purposes: primary sector and utilities, public administration and defence, other service activities, and activities of households.

Beyond Q3 2020, a substantial rise in COVID-19 cases and the associated social distancing measures appear to have weighed on economic activity since the end of the summer and to have increasingly done so until the introduction of the second national lockdown in England (5 November to 2 December). Taken altogether, the BoE now expects³⁶ consumption to fall and business investment to remain subdued over the last quarter of the year. Under this scenario, UK real GDP would decrease by another 2% in Q4 2020, leaving a historic negative real GDP rate of -11% for 2020 - based on the central bank projections. Although a number of factors might determine the actual path of the UK economy over the end of the year – e.g., the severity of social distancing restrictions in England, the effectiveness of public health interventions in containing the virus spread in December, news on the COVID-19 vaccine and its widespread availability, further announcements from the Chancellor to support the economy before the end of the year and the final outcome of Brexit - external forecasters seem to broadly agree with the above-mentioned BoE projection for this year (see Figure 3.8).

³⁶ See Bank of England – [Monetary Policy Report November 2020](#).

Looking further to the outlook of the UK economy next year, other uncertain elements such as the global economic recovery, the degree of scarring of the economy, and the prolonged concerns on low productivity add to the already commented risks for the very short-term. Despite the extraordinary uncertainty, external forecasters also seem to agree on a slower economic recovery in the UK when compared to the projections made at the initial stages of this crisis (Figure 3.8). On the one hand, these organisations³⁷ now estimate – on average – a slightly higher output growth in the UK for this year (-10.6%) when compared to the same estimation made half a year ago (-11.0%). On the other hand – and more importantly –, they have corrected down substantially UK GDP growth for 2021 from an average rate of 10.1% estimated in Q2 2020 to 5.2% according to the latest forecasts.

Figure 3.8: External forecasts of UK real GDP growth for 2020-2022 (Q2 2020 forecasts vs Q4 2020 forecasts)



Source: GLA Economics based on ONS, HM Treasury, Bank of England, OECD, IMF, OBR and European Commission projections. "F. (q2 2020)" means forecasts published during Q2 2020. "F. (q4 2020)" means forecasts published during Q4 2020.

Putting GDP aside, other important economic indicators show the magnitude of the COVID-19 crisis in the UK. The unemployment rate in the UK has risen from 3.8% in Q4 2019 to 4.8% in Q3 2020, the highest rate in four years. ONS data shows that total employment has reduced by around half a million since February – most of them self-employed workers – and total worked hours have also declined considerably. In a context where the take-up rates of the Government's CJRS and SEISS were 8% and 69% as at 30 September and 31 October, respectively, external forecasters agree that the labour market in the UK will stay damaged for some time as firms continue to adjust to a prolonged period of uncertainty. In particular, both the BoE and the consensus forecast produced by HM Treasury now project the unemployment rate to peak close to 7% in 2021 before starting to go down.

³⁷ See note in Figure 3.8.

Further evidence of the current downturn is the Consumer Price Index (CPI) which has continued to be very weak since April and far from the BoE central symmetrical target of 2%. CPI was only 0.9% in October mainly due to housing costs, recreation and culture services, and transport prices still contributing very little to inflation by historic standards³⁸. Low inflation may be substantially explained by the notable reduction in internal demand this year, in a context of prolonged restrictions to socialising and UK household real disposable income having reduced by 4% between Q4 2019 and Q2 2020³⁹. Also, pay growth has been volatile, in large part reflecting workers moving onto the CJRS and then coming off it again. As economic activity and household income recover, CPI is likely to rise gradually, although the recent estimates of investors and professional forecasters suggest that inflation will not return close to the central bank target in less than two years⁴⁰. The BoE expects to continue to use its current expansionary monetary policy ([Box 3.1](#)) in the near term to tackle this issue so that the inflation rate might return to more desirable levels sooner than predicted⁴¹.

In the current unusual environment, financial markets provide one of the more positive signs within the UK economy as they have broadly shown resilience to the initial perturbation. As at 2 December, the FTSE All-share Index has grown by 30.8% since the trough reached last March, after a previous historic fall of 34.5% at the outbreak of the crisis. Similarly, investment-grade corporate bond spreads have recovered most of the way to pre-COVID levels. The pound sterling remains around 5% weaker – on average against the main currencies – than it was pre-crisis indicating that, on the one hand, investors seem to prefer to hold other currencies than sterling in the current uncertain situation and, on other hand, the unclear outcome of Brexit with regards to trade continues to have its effect ([Box 3.2](#)). Nevertheless, after a volatile period until early September, the pound seems to have experienced an upward trend since then and now is set around the same levels it was at one year ago.

Box 3.2: An update on Brexit

This box provides an update on the process to establish a new policy framework after Brexit, and its economic impact so far. This follows the updates included in the eight previous editions of LEO^{42, 43, 44, 45, 46, 47, 48, 49} and so covers the period since June 2020. It also provides a comparison with the effects of COVID-19.

For a fuller discussion, GLA Economics has published an assessment of [The economic impact of Brexit on London](#)⁵⁰ which covers the macroeconomic impacts of Brexit more fully, and considers the impacts on businesses, migrants and visitors, and households.

³⁸ Source: ONS.

³⁹ Source: ONS.

⁴⁰ See Bank of England – [Monetary Policy Report November 2020](#).

⁴¹ See a recent [speech](#) by Dave Ramsden, Deputy Governor for Markets and Banking at the Bank of England.

⁴² GLA Economics (2016). '[London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections](#)', November 2016.

⁴³ GLA Economics (2017). '[London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections](#)', June 2017.

⁴⁴ GLA Economics (2017). '[London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections](#)', November 2017.

⁴⁵ GLA Economics (2018). '[London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections](#)', May 2018.

⁴⁶ GLA Economics (2018). '[London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections](#)', November 2018.

⁴⁷ GLA Economics (2019). '[London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections](#)', June 2019.

⁴⁸ GLA Economics (2019). '[London's Economic Outlook: Autumn 2019 The GLA's medium-term planning projections](#)', December 2019.

⁴⁹ GLA Economics (2020). '[London's Economic Outlook: Spring 2020 The GLA's medium-term planning projections](#)', June 2020.

⁵⁰ Hope, M. (2019). '[The economic impact of Brexit on London](#)'. GLA Economics

1 New policy framework after Brexit

The UK left the European Union in January 2020, and the transition period will conclude at the end of 2020. At the time of writing it is not clear if this will be followed by a Free Trade Agreement (FTA), or the UK trading with the EU on World Trade Organisation (WTO) terms.

The scope of any agreement has become narrower over time. The UK Government's negotiating position, and its desire for autonomy, has reduced the range of possible free trade outcomes, and brought any deal closer to WTO terms. After Boris Johnson became Prime Minister the amended political declaration in October 2019 dropped previous suggestions of a 'single customs territory', 'regulatory alignment' and a deal on trade in goods that was 'as close as possible'. In its place was an aspiration of an 'ambitious free trade agreement'⁵¹.

In macroeconomic terms the two remaining outcomes are detrimental for national income compared with the current situation, although there is a difference of degree. As a comparison Theresa May wanted the UK to⁵²:

- be in an EU customs union to forgo the need for border checks;
- have comparable standards for agricultural and manufactured products, and for labour and environmental matters.

Boris Johnson prefers closer to complete regulatory autonomy for Great Britain⁵³. The UK Government has started giving effect to this. It is implementing a new trade policy and has signed trade agreements with Iceland, Norway, and Switzerland amongst other countries⁵⁴. It has also implemented a new immigration policy, as reported in the Spring 2020 LEO⁵⁵.

Regulatory autonomy through unilateral action by both the UK and the EU, can also be a means to support trade flows. In financial services, for example, the Chancellor of the Exchequer, Rishi Sunak, has stated that he would grant equivalence to EU and European Economic Area (EEA) states⁵⁶. This will allow UK-based fund managers and banks to use EU exchanges, investment firms, credit rating agencies, critical market benchmarks and clearing houses. The move does not, though, address the bigger issue of the UK being granted equivalence by the EU, which would allow British companies to sell financial services to EU clients on existing terms. Secondly, in practical terms, some EU bank branches in London would not know which set of rules on derivative counterparties⁵⁷ they must comply with – causing uncertainty and potential disruption to trades⁵⁸. Thirdly, local agreements that allow UK banks to offer services to EU-resident customers will be needed as this regulatory requirement cannot be resolved through mutual equivalence⁵⁹.

In the case of data services, the UK Government has already legislated so that British companies can lawfully send personal data into the EU. Brussels, though, has not completed its assessments of UK data protection. As a result, companies may need new clauses in contracts to ensure data can flow from the EU to the UK⁶⁰.

⁵¹ Nabarro B (2020). ['The cost of adjustment: emerging challenges for the UK economy - Institute For Fiscal Studies - IFS'](#).

⁵² For more information see [The economic impact of Boris Johnson's Brexit proposals](#)

⁵³ Under the Withdrawal Agreement Northern Ireland trade rules will align with the Republic of Ireland, and the EU

⁵⁴ See [Existing UK trade agreements with non-EU countries - GOV.UK](#)

⁵⁵ GLA Economics (2020). ['London's Economic Outlook: Spring 2020 The GLA's medium-term planning projections'](#), June 2020.

⁵⁶ Financial Times (2020). [Sunak sets out 'green' post-Brexit financial services regime](#), 9 November

⁵⁷ A derivative is a contract between two or more parties based on an underlying financial asset (or set of assets). Derivatives are used by traders to speculate on the future price movements of an underlying asset without having to purchase the asset itself. Counterparty risk is the risk associated with the other party to a financial contract not meeting its obligations.

⁵⁸ Financial Times (2020). [City regulator warns on three Brexit 'cliff-edge' risks](#), 12 November

⁵⁹ Financial Times (2020). [City regulator warns on three Brexit 'cliff-edge' risks](#), 12 November

⁶⁰ Financial Times (2020). [City regulator warns on three Brexit 'cliff-edge' risks](#), 12 November

2 Aggregate impacts of Brexit

Table 3.3 provides an estimate of the economic impact of EU exit options. In aggregate terms, Theresa May's deal halves the losses per individual of leaving the EU on WTO terms. Boris Johnson's proposals are between these two options.

Table 3.3: Income per capita effects of EU exit options

May's deal	-1.7%	-£500
Johnson's proposals	-2.5%	-£800
WTO	-3.3%	-£1,000

Source: UK in a Changing Europe (2019), *The economic impact of Boris Johnson's Brexit proposals*

In a review of the literature the OBR concludes that potential productivity will eventually be around 4% lower than it would otherwise have been as a result of EU exit. This is mainly due to extra costs resulting from higher trade barriers and greater impediments to the exploitation of comparative advantage⁶¹, and will lead to a restructuring of the economy. The OBR refers to productivity growth as the main determinant of economic growth. There will also be economic losses from reduced capital investment and structural unemployment.

The OBR estimates that by March of this year 1.4% of this 4% reduction in productivity had already occurred. It attributes this to heightened uncertainty on business investment, and a diversion of resources away from productive activities to prepare for Brexit. Some of these effects will start to unwind once the details of the future trading regime are known.

The OBR notes that there is little evidence about the pace at which the effects of lower productivity growth will be manifest from the erection of trade barriers but assumes that it will take 15 years for the impact to come through in full.

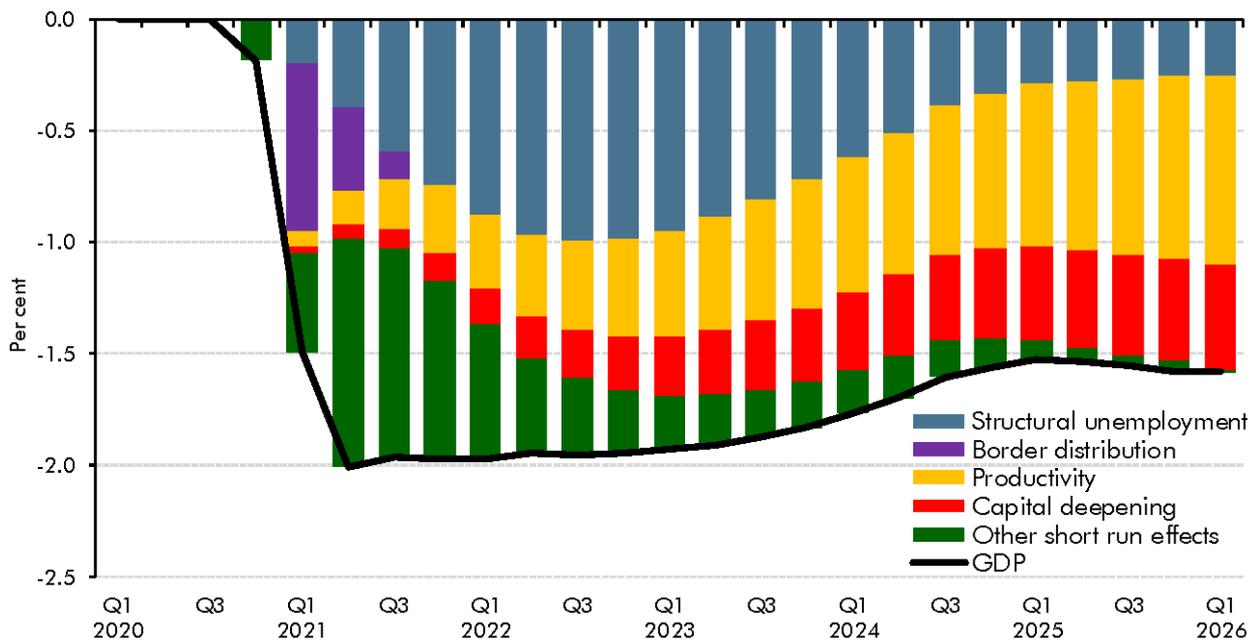
It is more likely that if there is not an FTA and there is no deal, most of the additional effects will be felt more quickly. Simulation modelling by the National Institute for Economic and Social Research (NIESR)⁶² estimates that GDP would be 1½% lower in the long run under a no deal Brexit compared with an FTA. In a year's time GDP would already be ¾% lower. Most of the adjustment to the economy is already taking place under an FTA, and this is expected to come in progressively over time. The OBR estimates that GDP would be 2% lower in the first year, and over the longer term but that the size of the effect would moderate over the medium term as the composition of factors at work changed⁶³, (Figure 3.9).

⁶¹ OBR (2020). ['Economic and fiscal outlook – March 2020'](#).

⁶² NIESR (2020). ['National Institute Economic Review, Prospects for the UK Economy'](#), 2 November.

⁶³ OBR (2020). ['Economic and fiscal outlook – November 2020'](#). The OBR estimates that the economy would be 4% smaller with an FTA compared with continued membership of the EU

Figure 3.9: Difference in real GDP of a no deal Brexit compared with a Free Trade Agreement, 2020-2026



Source: OBR Economic and Fiscal Outlook, November 2020

3 Sectoral effects of Brexit

Further, there will also not be a simple linear process in how the London and UK economies restructure after a loss of openness in trading relationships with the EU. This started happening immediately after the EU Referendum and the depreciation of sterling, and the second phase will follow the re-introduction of trade barriers.

The effect of the depreciation of sterling was:

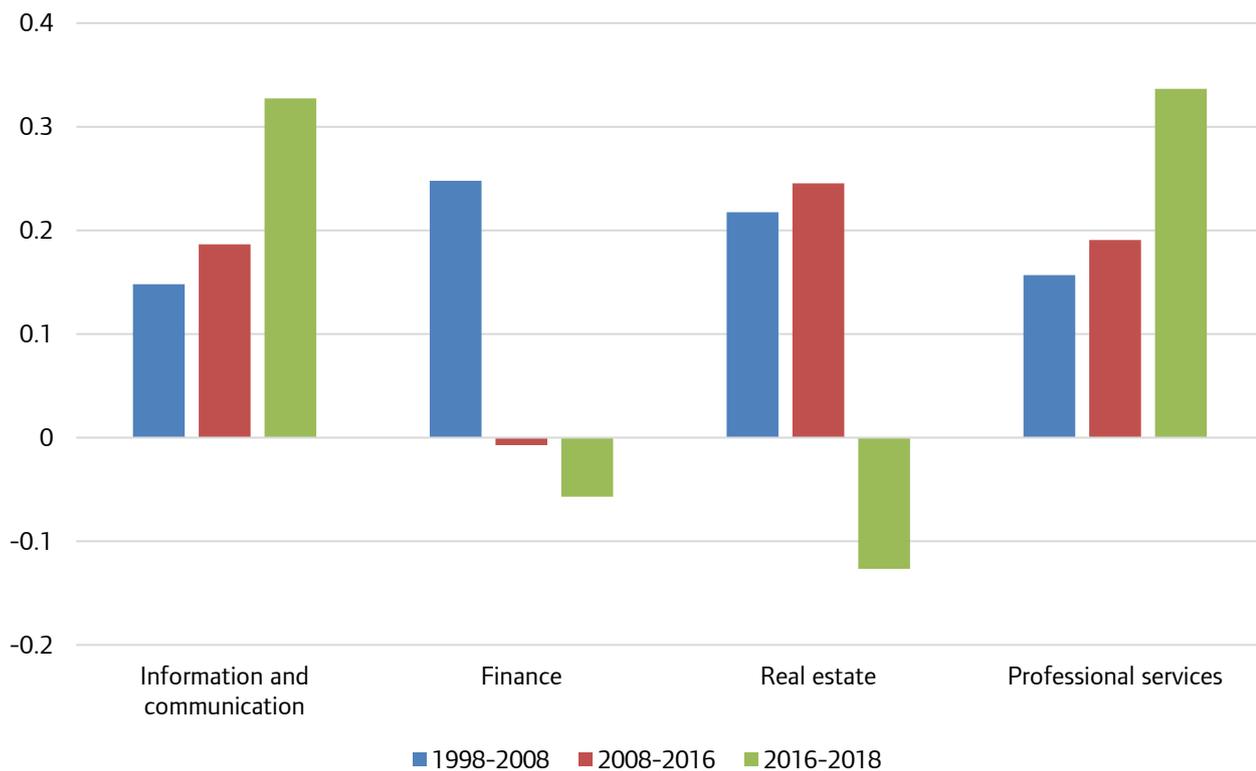
- to favour the production of tradeable sectors because it made exports cheaper in other currencies
- to place non-tradeable sectors at a disadvantage because it made all individuals, households, and businesses in the UK worse off

The expectation is that this would boost the output of tradeable sectors and reduce the output of non-tradeable sectors. This has been observed for the UK⁶⁴.

This is likely also to have happened for the London economy although the data is not available to conduct a similar analysis at a disaggregated sectoral level. Information and communications, Professional services, Finance, and Real estate constituted 55% of the London economy in 2018. The first three sectors are export-oriented, and the last is non-tradeable. They accounted for 77% of London's growth in the period 1998-2008. This accelerated in the period 2008-2016 except for Finance, which is likely explained by the increased regulatory burden placed on that sector. In line with theory the importance of the Information and communications and Professional services sectors increased after 2016 accounting for two-thirds of London's growth, while that of the Real estate sector declined, Figure 3.10.

⁶⁴ Drechsel, T. (2020). 'Economic growth and the Brexit vote'.

Figure 3.10: Share of growth in London's economy, key sectors, various periods 1998-2018



Source: ONS GVA statistics

More broadly, it has been observed that the expected aggregate boost to UK exports from sterling's depreciation did not occur to the degree expected. This was at a time of growing global trade. Three reasons have been given for this⁶⁵:

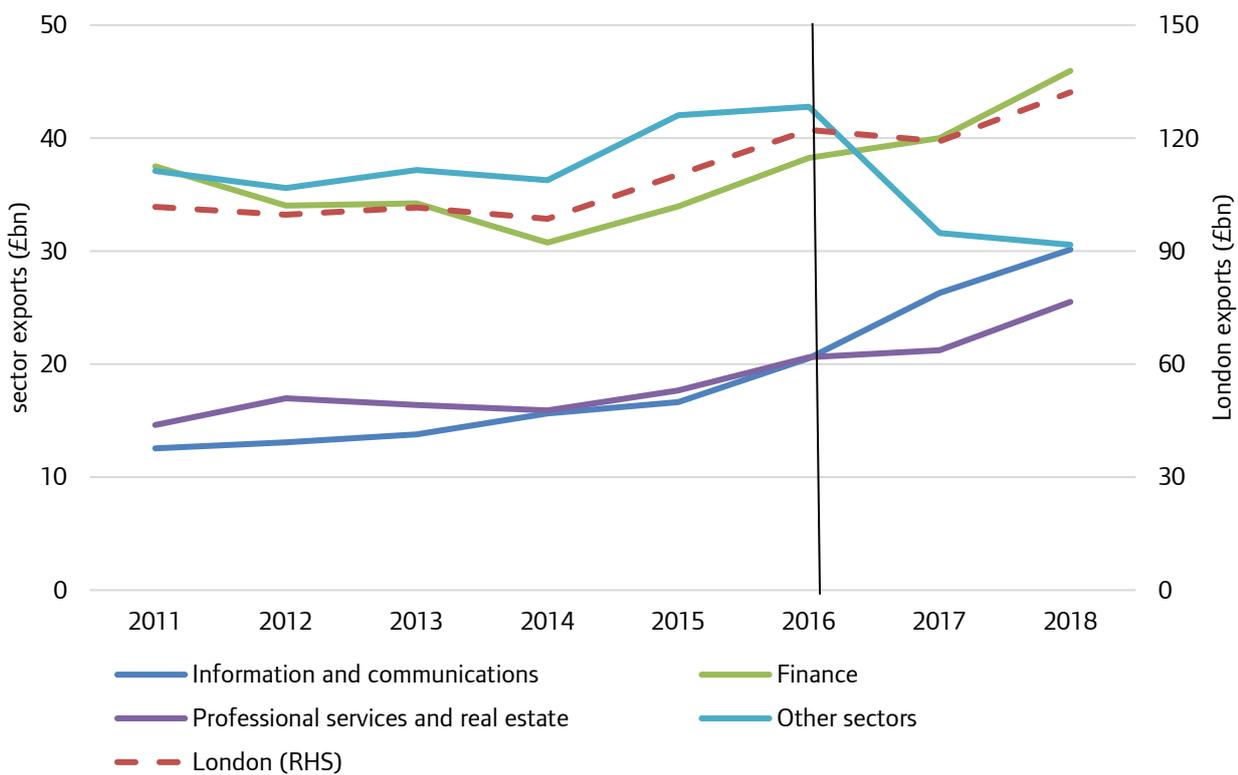
- The UK's relatively heavy involvement in international value chains is consistent with the significant increase in UK prices and also with the attenuated export responses.
- The elasticity of demand for UK exports is rather low and this is further consistent with a weak export response.
- Some part of the failure could be due to the dramatic increase in trade-policy uncertainty that the Brexit result heralded

More starkly, Figure 3.11 shows that there was growth in exports across London's export-oriented sectors after 2016⁶⁶, but for other sectors (which will be a mix of tradeable and non-tradeable sectors) there was a sharp decline. This suggests that the EU Referendum result had an immediate effect and a significant number of London businesses exited export markets soon after.

⁶⁵ Ayele, Y. and Winters, L. A. (2020). '[Should the Brexit sterling depreciation have boosted exports? How exchange rates affect trade and prices](#)'.

⁶⁶ Real estate is included with Professional services as data is not available by sector for 2016 and earlier. In 2017 Real estate exports were £400m, and for Professional services they were £20,370m.

Figure 3.11: London's service exports and for key sectors, 2011-2018, £bn



Source: ONS regional trade in services

Note: There is a slight discontinuity between 2016 and 2017 when there were some changes of sector definitions. Figures have been deflated by the UK GDP deflator

Curiously, much of the benefit to London's export-oriented sectors of sterling's depreciation may be lost once the transition period with the EU comes to an end because of the introduction of non-tariff barriers (NTBs). NTBs are measures other than ordinary price-based customs tariffs that restrict international trade. That is unless companies find ways to circumvent the barriers. For example, London's Finance sector has transferred some assets to the EU to continue to trade there⁶⁷. The narrowing of UK-EU trade negotiations has increasingly excluded provisions which might cover NTBs.

Some NTBs will impact on services, and so will be of particular importance for London:

- Loss of equivalence-based access for the Finance sector as discussed above
- Loss of EU 'data adequacy' status, that the UK's data protection rules are comparable to those in the EU, may mean that companies will not be able to pass freely personal information between the jurisdictions, and as also discussed above.
- Difficulties for individuals to travel into another jurisdiction for the purpose of providing a service.
- Non-recognition of UK-awarded qualifications by the EU requiring recognition by each Member State.

Other NTBs will matter more to goods trade, and so be less relevant to London⁶⁸:

⁶⁷ Hope, M. (2019). 'The economic impact of Brexit on London'. GLA Economics

⁶⁸ Goods exports account for less than a quarter of London's exports. See the supplement to [London's Economy Today - Issue 216 - August 2020 | London City Hall](#)

- Introduction of rules of origin criteria – around 50% of the value of that good has to have been produced in the UK or EU to be eligible for export⁶⁹.
- New costs to fill out customs declarations, and gain licences to export.
- Implementation of regulatory barriers, registration and product standards⁷⁰.

The BoE summarises research⁷¹ which concludes that many NTBs are at least as restrictive as tariffs and exert a higher drag on trade. They are particularly important because they have the potential to have a rapid effect on trade. This is because the discrete nature of some of the barriers means an exporter can either supply the goods or services, or they cannot.

Other evidence⁷² that the end of the transition period may have an adverse economic impact comes from New Zealand. When the UK joined the European Economic Community in 1973 it had stated this intention for over a decade. There is limited evidence for New Zealand of a material change in trade flows ahead of the point when the country lost access to UK markets. However, once new trade barriers came in, the level of exports fell very quickly, and this rapidly fed through to economic growth and investment.

Incomplete business preparedness may also not help the adjustment process. The BoE reports⁷³ that business can take a range of actions to prepare for the new trading relationships. Most UK firms have taken some preparation, and some report that they are fully prepared. Around 40% of firms are currently 'as ready as can be'. This response partly reflects that the full details of the new trading relationship are not yet known. Around a third of firms say they are only partially prepared, however, while 19% of firms report that they do not trade with the EU.

Businesses that expect the move to new trading relationships to have a large impact on their sales report being less prepared for the end of the transition period on average. The share of partially prepared firms tends to be higher in sectors where a relatively large proportion of firms trades directly with the EU. In partial mitigation, certain types of preparations, such as stock building, have taken place close to previous Brexit deadlines.

There could well be significant disruption at the border from 1 January 2021, as many traders and third parties will not be ready for new EU controls, according to the National Audit Office (NAO), in a report⁷⁴ published in November 2020. The Government's latest reasonable worst-case planning assumptions, as of September 2020, are that 40% to 70% of laden lorries may not be ready for border controls.

The NAO⁷⁵ has also noted that the Government's preparations are high risk. There is little time for ports and other third parties to integrate their systems and processes with new or changed government systems, and contingency plans may need to be invoked in some areas. The Government has delayed implementation of

⁶⁹ For a summary of UK and EU negotiating positions see [Rules of origin in the auto-industry under a UK/EU deal | UK in a changing Europe](#)

⁷⁰ This includes sanitary and phytosanitary rules (e.g. restrictions for substances, hygienic requirements, measures for preventing dissemination of disease and related to food safety), technical barriers to trade (e.g. labelling and certification), non-technical measures such as measures to protect intellectual property and rules on public procurement, and other measures aimed at creating a level playing field between imports and domestically-produced goods and services. Description comes from [EU withdrawal scenarios and monetary and financial stability | Bank of England](#).

⁷¹ BoE (2018). '[EU withdrawal scenarios and monetary and financial stability](#)'.

⁷² Ibid.

⁷³ BoE (2020). '[Monetary Policy Report - November 2020 | Bank of England](#)'. The evidence in this and the next paragraph come mainly from the BoE Decision Maker Panel Survey.

⁷⁴ NAO (2020). '[The UK border: preparedness for the end of the transition period](#)'.

⁷⁵ Ibid.

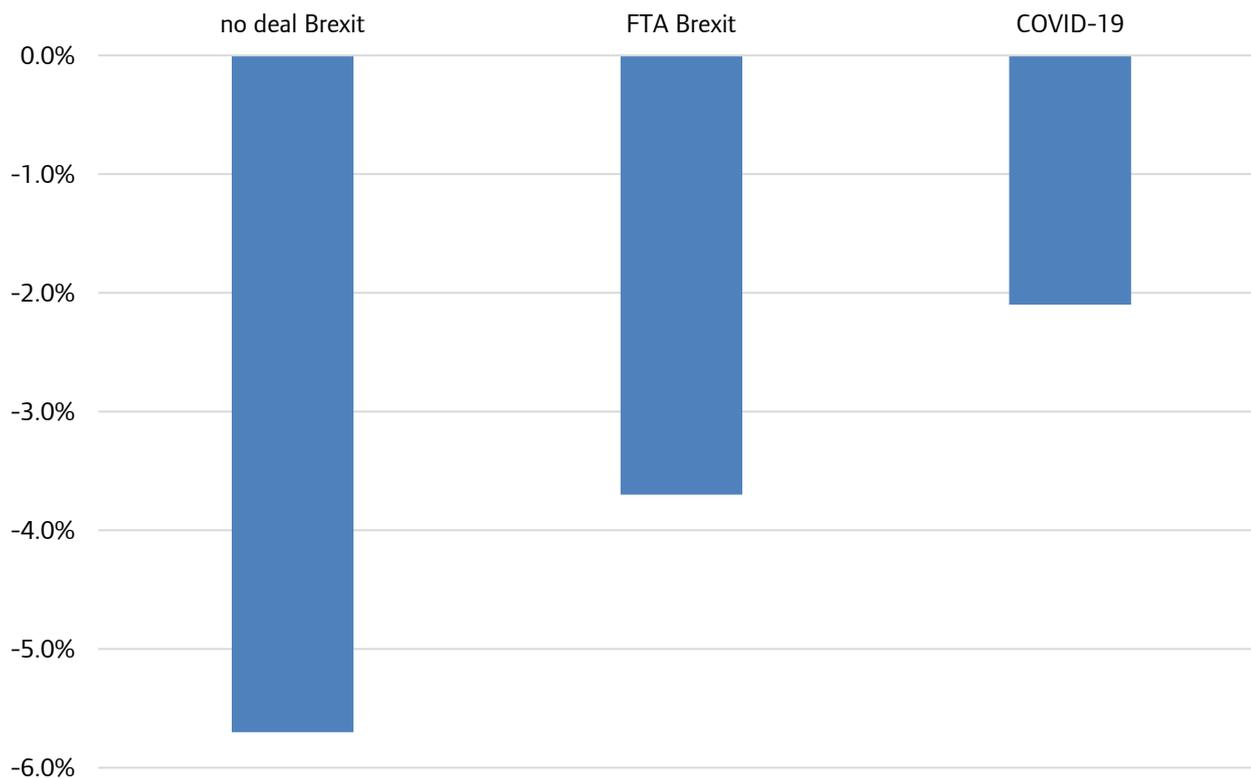
full import controls until July 2021 but there remains uncertainty over where the infrastructure and resources will be located, and if they will be ready in time.

In conclusion, the November 2020 BoE Monetary Policy Report⁷⁶ has a central projection that an FTA is reached between the UK and the EU before the end of 2020, but that trade and GDP are temporarily lower in the near term as firms adjust to the new arrangements. There is likely to be immediate adverse impacts for London's export-oriented sectors which go beyond the degree of preparedness of business or government. This will be part of a longer-term restructuring of the London economy due to Brexit.

4 Brexit and COVID-19

The profiles of the economic shocks of Brexit and COVID-19 are quite different. COVID-19 has had a very large downward effect on GDP much of which was recovered very quickly, although by September GDP was still 8.2% below its level in February⁷⁷ – this is greater than the fall during the 2008 financial crisis. The expectation is that there will be a near complete recovery in the next year or two. As noted earlier the effects of Brexit are expected to build over time and be permanent. Their total impacts can be compared through the process of discounting – a method to value the loss of output in the future as a present value by using an equivalent to an interest rate for the time value of money. While COVID-19 will have a significant detrimental impact on the economy, the effects of Brexit in whatever form it takes will be markedly higher in the long run, (Figure 3.12).

Figure 3.12: Change in present value of future UK GDP, COVID-19 and Brexit scenarios



Source: Sampson, T. (2020). [‘The UK economy: Brexit vs Covid-19’](#).

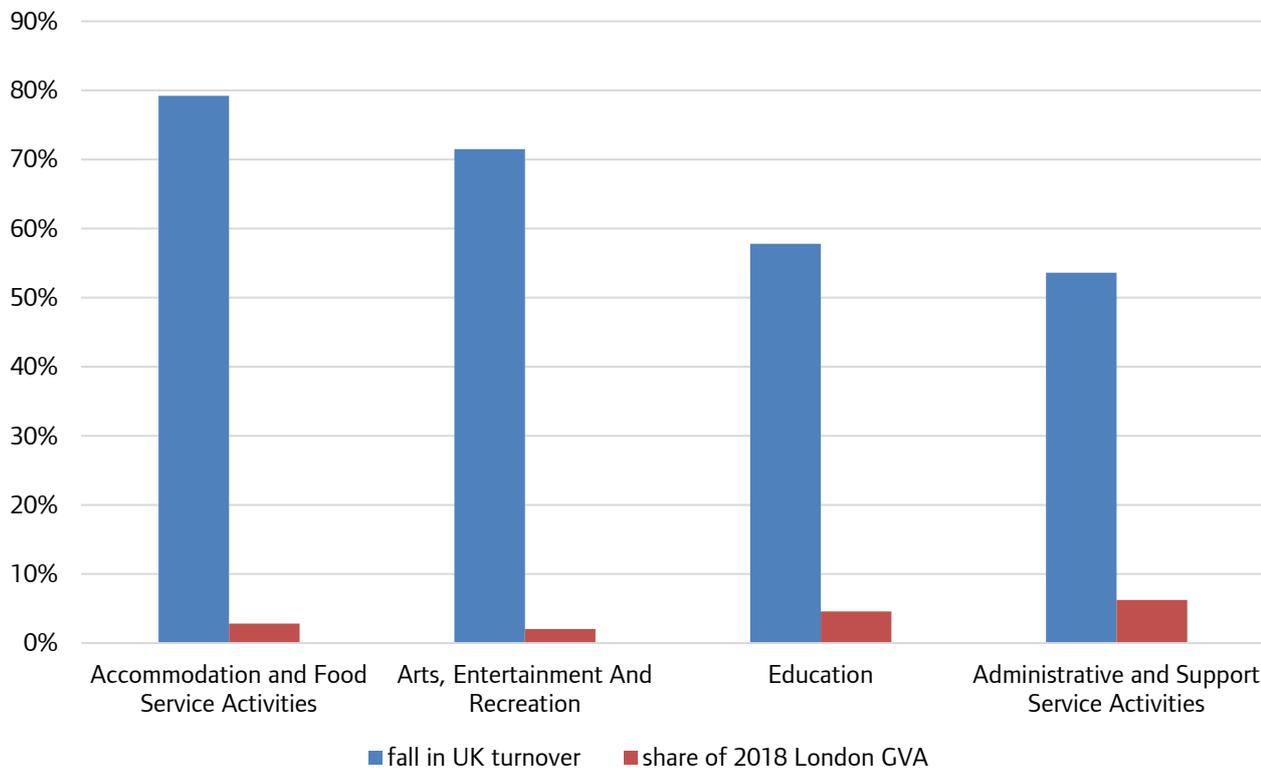
There will be both direct and indirect impacts from COVID-19. The sectors which are facing direct impacts are consumer-facing sectors such as the Arts, entertainment and recreation and Accommodation and food

⁷⁶ BoE (2020). [‘Monetary Policy Report - November 2020 | Bank of England’](#).

⁷⁷ ONS (2020). [GDP monthly estimate, UK](#), 12 November 2020

services. These sectors have faced a fall in turnover of over 70%, compared with around 50% for the whole economy, (Figure 3.13). These are non-tradeable sectors, and so are not facing the worst impacts from Brexit. They account for a relatively small proportion of the London economy. The four UK sectors with the largest falls in turnover account for 16% of the London economy.

Figure 3.13: Four UK sectors with largest falls in turnover by 1 November 2020 with share of 2018 London GVA



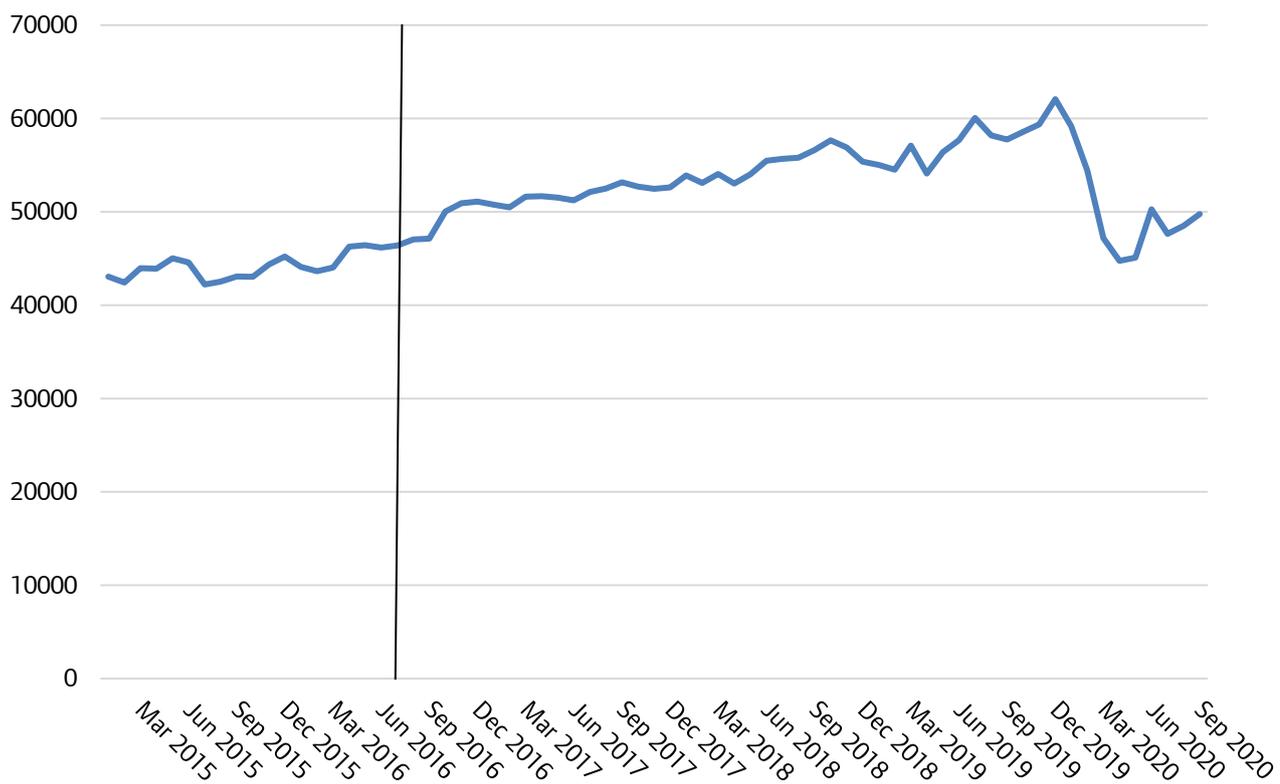
Source: ONS Business Impact of COVID-19 Survey, responses received 19 October – 1 November 2020, and ONS GVA

Where there is a similarity in the economic effects of Brexit and COVID-19 is in the uncertainty it creates. The expectation had been that investment would recover once the nature of the UK's future trading relationship with the EU was clear. However, investment is likely to remain depressed while the public health consequences of the virus remain poorly understood.

Further, a decline in turnover for businesses has not been matched by a decline in costs. The effect of the furlough scheme has been to help people to retain employment, but this requires an employer to meet National Insurance and employer pension contributions. There has been business rates relief, but businesses have still had to pay other overhead costs. This has made the financial position of many businesses more precarious and less able to prepare for, or face, the financial shock of Brexit.

Thirdly, the imposition of social distancing restrictions has had an adverse impact on exports markets, which may compound the effects of Brexit in disrupting exports markets. Exports had been on a steady upward trend (Figure 3.14) from January 2015, and received a boost from sterling's depreciation after the EU Referendum in June 2016. This stopped in December 2019, once COVID-19 had passed to humans in China. In the next four months there was a fall of 28% in the value of exports as the virus became established around the world. Despite some recovery by September 2020 exports remained 20% lower than the peak. There have been falls for both goods and service exports.

Figure 3.14: Monthly UK exports, January 2015–September 2020, £m



Source: ONS UK trade

In conclusion, while Brexit may impact most directly on tradeable sectors, and COVID-19 on non-tradeable sectors both shocks are having detrimental effects on the London economy.

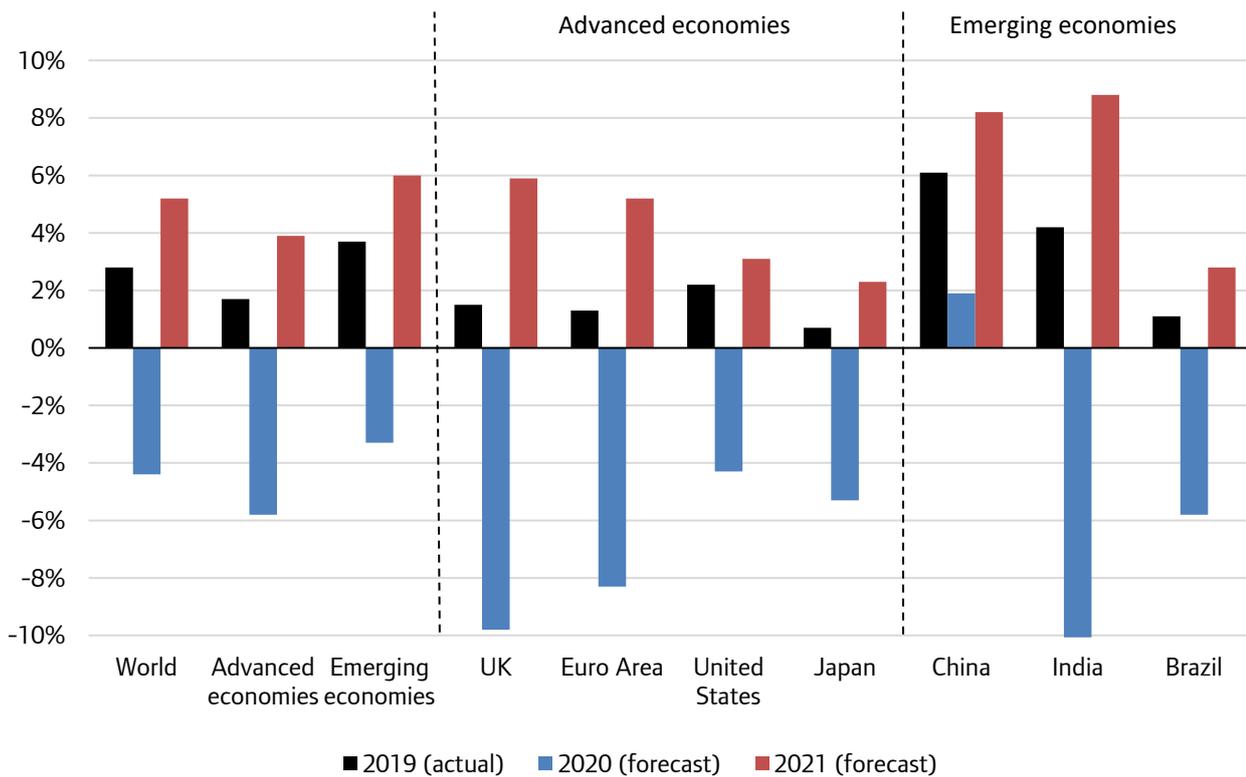
3.3 The global economy

The global economy has broadly followed the same dynamics seen in the UK and London over the year, reflecting the impact of the COVID-19 pandemic and the social distancing measures imposed by local authorities to contain its spread. After the unprecedented economic shock in the second quarter of the year, most advanced and emerging economies eased their restrictions on economic activity and started to recover in Q3 – although at heterogeneous rates. However, the outlook for Q4 and 2021 remains exceptionally uncertain for all economies as COVID-19 cases continue rising across large sections of countries worldwide.

According to the latest IMF World Economic Outlook⁷⁸, the world's economy is expected to contract by 4.4% this year (1.4 percentage points down from its spring forecast) before picking up by 5.2% next year (0.6 percentage points less than expected in the spring forecast). Advanced economies are projected to fall – on average – by 5.8% this year while emerging economies will contract – on average as well – by 3.3%. This implies that, for the first time since the Great Depression, both advanced and developing economies are in recession (Figure 3.15). In comparison, even during the financial crisis in 2008–2009 the world's economy grew.

⁷⁸ IMF – (2020) [World Economic Outlook: 'A long and difficult ascent'](#), (October, 2020).

Figure 3.15: IMF forecasts of real GDP growth for selected economies



Source: IMF – World Economic Outlook, October 2020.

Looking at the advanced economies in greater detail, consumer spending led the initial recovery in the **US** and the **Eurozone** during the summer. As a result, US GDP grew by 7.4% in Q3 compared to Q2 while the Eurozone grew by 12.6% - although the negative impact in Q2 was larger than the US as well. Beyond this, the unemployment rate in the Eurozone was only around one percentage point higher in September (8.3%) than at the start of the year while the US, in September, had already recovered almost two thirds of the lost jobs during Q2. The recovery of consumption in both economies can be explained by both the relaxation of social distancing measures and the unparalleled economic support by public authorities. In the US, direct payments to households and enhanced unemployment benefits were the main mechanisms to maintain household incomes. Also, both the US Government and the Federal Reserve activated a number of historical fiscal and monetary stimuli to provide liquidity and tax relief to businesses, along with support to the economic recovery overall⁷⁹. Similarly, the European Commission and the European Central Bank launched over the summer, respectively, the 'Recovery plan for Europe'⁸⁰ and the 'Pandemic emergency purchase programme'⁸¹ in order to provide financial assistance to member states during this crisis while bank lending held up the internal demand in the Eurozone. Looking forward, the IMF now expects the US economy to shrink by 4.3% in 2020 and grow by 3.1% in 2021. For the Eurozone, the impact will be deeper this year (-8.3%) but growth will be higher next year (5.2%) as well. These IMF projections are broadly in line with their corresponding local central bank projections.

In **Japan**, the economy already entered recession in the first quarter of 2020 when it contracted at an annual rate of 3.4% following a fall of 6.4% in the fourth quarter of 2019. The impact of the COVID-19

⁷⁹ On a historic [announcement](#) on 27 August 2020, the Federal Reserve reviewed its monetary policy mandate and decided to relax its traditional inflation target to give priority to the economic recovery of the US instead.

⁸⁰ See the details of the European Commission's 'Recovery Plan for Europe' [here](#).

⁸¹ See the details of the European Central Bank's 'Pandemic Emergency Purchase Programme' [here](#).

crisis on Japanese real output in the second quarter of the year was close to the US shock (-28.2%). Yet, the latest real GDP forecast by the IMF for this year is -5.3%, far more positive than the UK and Eurozone estimates.

The COVID-19 impact on emerging market economies is expected to be less negative this year and more positive next year than in advanced economies, according to the IMF. This institution now estimates a real GDP contraction of 3.3% in 2020 and strong growth of 6.0% in 2021, although large variations among countries and “assistance with medical equipment, know-how, debt reliefs, grants, and concessional financing from the international community to the lower-income countries” is assumed. The relative resilience of this group of countries is mainly due to **China** - despite being the first epicentre of the current global crisis - whose economy grew by 3.2% in Q2 and 2.7% in Q3. The main factors behind this success point to a rapid containment of the Coronavirus spread before the summer and a strong rebound in investment and exports after it. Consequently, China will eventually be one of the few countries growing this year (1.9%) and next year (8.2%), according to IMF projections⁸². **India** is also expecting solid output growth next year (8.8%) but at the expense of an historic contraction in 2020 (-10.3%)⁸³. Other large developing countries such as Brazil, Mexico and Russia are estimated to experience similar impacts this year - and similar recoveries next year - to the advanced economies.

3.4 Risks to London's economy

The outlook for the UK's economy is unusually uncertain at the moment, and this situation applies to the capital as well. Risks to the economy are skewed to the downside and come from several sources. This subsection analyses the most relevant ones.

At present, the main risk to London's economic outlook is around the recovery from the COVID-19 crisis. The initial outbreak produced a historic decline in both aggregate demand and aggregate supply as a result of two main factors coexisting: first, a precautionary behaviour by economic agents under a new and extraordinary uncertain context and, second, the Government restrictions on mobility and economic activity to control the virus spread. As seen over the summer, as these factors reduced the economy started to recover but the latest evidence does not point to that direction for the last quarter of the year. The intensity and duration of further restrictions, the effective control of the virus spread or end of the pandemic (either naturally or through mass vaccination programmes) and the return of confidence among economic agents may be considered the key elements for the long-awaited economic recovery. The unprecedented economic support set by public authorities has proven to be effective in avoiding a further sinking of the economy but the recovery will not be driven by these interventions themselves. Besides, as the current negative shock persists, long-lasting effects to the economy become more likely. This might be especially evident in sectors which will inevitably lose weight within the economy and whose labour force might have to relocate to more resilient or new industries. This process may speed up if consumer spending patterns change permanently as a consequence of the COVID-19 crisis.

In this context, labour productivity growth – which has remained below historical standards in London since the 2008-2009 financial crisis⁸⁴ - is not expected to be one of the levers of economic recovery from this crisis. On the contrary, our judgement is that it will presumably remain weak in the medium-term due to continued low private investment and a larger share of the workforce working remotely. The effects on the long-term remain very uncertain.

A second factor of risk – which also has a direct effect on the evolution of the London economic recovery - is the international context. In this sense, while global geopolitical risks have reduced this year, the

⁸² The corresponding rates estimated by the Asian Development Bank are 1.8% in 2020 and 7.7% in 2021.

⁸³ The corresponding rates estimated by the Asian Development Bank are -9.0% in 2020 and 8.0% in 2021.

⁸⁴ See GLA Economics (2019), '[Productivity trends in London: An evidence review to inform the Local Industrial Strategy evidence base](#)'.

performance of the world's economy is extraordinarily negative because of the pandemic and the outlook remains highly uncertain as already described in [subsection 3.3](#) of this report.

Another risk to London's economy is the potential adverse effects of the unprecedented expansionary monetary and fiscal policies that UK authorities have undertaken this year to mitigate the negative impact of the COVID-19 crisis⁸⁵. On the fiscal policy side, the risk of a prolonged subsidised internal demand and bail out of non-viable businesses is real given the size of the fiscal package. Furthermore, the extraordinary cost of the announced policy measures, the additional welfare spending, and a big fall in public revenues as a result of a much smaller economy will lead to a rapid increase of both public sector net borrowing and net debt up to 19.0% and 105.2% respectively of GDP⁸⁶ this financial year. These figures represent a historic shock to UK public finances which breaks all fiscal targets and, therefore, measures to return to a sustainable path in public finances can be expected by the Government as the economic recovery becomes solid. Although nothing has been announced yet, one of the likely measures is certain tax rises which eventually will result in less disposable income for future generations and lower potential output. Alongside this, new fiscal consolidation measures cannot be ruled out in the future, especially if public sector borrowing costs increase deriving from a huge and prolonged deterioration of public finances. Yet, there is a risk that current fiscal policies are withdrawn prematurely resulting in a slower economic recovery. On the monetary policy side, the Bank of England has set interest rates at historic lows, provided record liquidity to businesses, and the size of its Quantitative Easing Programme was 4.5 times larger in November 2020 than it was during the 2009 financial crisis⁸⁷. These measures can certainly avoid a lower inflation overall and stimulate economic activity while in place. But they also have potential adverse impacts on the economy such as higher inflation in particular financial and real assets (including housing⁸⁸), discouraging people from saving as negative real interest rates make consumption more relatively attractive, and the distortion of information that prices in financial markets provide naturally without intervention (i.e., prices do not reflect the actual asset risk under the current monetary expansion so riskier assets cannot be differentiated from safer assets, thus promoting non-viable investment projects eventually).

Finally, and regardless of the COVID-19 crisis, the main long-term risk to London's economy is around how the final trading arrangements between the UK and the EU will eventually affect activity in the capital. The very feasible possibility of a no-deal Brexit might substantially raise trade barriers when compared to the current regime, thus having an additional large adverse impact on economic growth in the short term. Even in the event of an agreement before the end of the year, it can be expected that trade will fall temporarily in the first half of 2021 as local businesses - especially small and medium-sized enterprises - will need time and resources to adjust to the new legal framework. Additionally, there is uncertainty over how controls on the EU side of the border will be applied in practice. Consequently, even in that deal scenario, risks around the future impact that a final arrangement would have on the commercial balance remain. Either way, the endless Brexit negotiations keep consuming resources from the public and private sectors which cannot be used for the COVID-19 economic recovery instead. As shown in previous GLA Economics publications⁸⁹, Brexit-related uncertainty is thought to have negatively affected London's economy through lower investment, labour productivity and consumer confidence since the 2016 referendum. More details on recent Brexit-related developments are provided in [Box 3.2](#) of this chapter.

3.5 Conclusion

The unprecedented fall in London's economic activity over 2020 reflects a decline in both demand and supply because of the COVID-19 pandemic. This impact started in the first quarter of the year but showed

⁸⁵ See Box 3.1 above in this Chapter to read the full list of public interventions to date.

⁸⁶ Source: OBR – (2020) [Economic and fiscal Outlook](#) (November, 2020).

⁸⁷ Source: Bank of England.

⁸⁸ See Johnson, P. (2020), '[Ultra-low interest rates have huge consequences for the country and its citizens](#)'.

⁸⁹ See GLA Economics (2019) '[The economic impact of Brexit on London](#)'.

with a special intensity in the second quarter resulting from Government restrictions on mobility and activity and economic agents adapting to an exceptional uncertainty. As these two elements reduced, the economy started to recover to some extent over the summer but recent economic indicators and forecasts point to a new regression in the last quarter of the year following the second wave of COVID-19 cases.

The policy response by UK authorities is also unique in the historical context and some of the adverse impacts produced by such economic shocks are being mitigated with success. Yet, all London industries are being affected by the COVID-19 crisis up to some extent, with Accommodation and food services, Construction, and Transport and storage being the most hit sectors in terms of both output and jobs so far.

Looking to the future, the outlook for London's economy remains unusually uncertain as risks to the economic recovery are many and skewed to the downside. Factors such as the actual control or end of the pandemic, the evolution of the national and global economies, the final outcome of Brexit negotiations and the response of economic agents to all these upcoming developments will critically determine the evolution of the capital's economy for the next months.

Considering all these elements, GLA Economics provides its medium-term scenario-based forecasts for London's economy in [Chapter 5](#) of this document.

4. Review of independent forecasts

GLA Economics' forecast of four economic indicators is provided in [Chapter 5](#): workforce jobs, real GVA, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 2 December 2020 on the first three of these indicators is summarised⁹⁰, drawing on forecasts from outside (independent) organisations⁹¹. The 2020 Spring LEO did not include this chapter because these organisations had not as yet produced forecasts to incorporate the economic effects of COVID-19.

It should be noted that forecasts in this chapter for only two of the four organisations were released after the announcement for the second lockdown.

Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling, which in turns relies on ONS data. The source of historic data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for absolute levels data.

Additionally, both the consensus⁹² and GLA Economics' own forecasts provide forecasts of employment and output growth in six broad sectors:

- Manufacturing
- Construction
- Transportation and storage
- Distribution⁹³, accommodation and food service activities
- Finance and business services⁹⁴
- Other (public & private) services⁹⁵.

It should be noted, that since our spring 2012 forecast GLA Economics has been using the new Standard Industrial Classification (SIC 2007)⁹⁶.

⁹⁰ The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE.

⁹¹ Most forecasters do not yet provide forecasts of household income, while a number of forecasters have not produced estimates of household expenditure post pandemic.

⁹² The consensus GVA forecast for the six broad sectors is based on the latest available forecast from CE, CEBR, EE and OE for GVA but the consensus employment forecast for the six broad sectors is based on the latest available forecast from CE, EE and OE only.

⁹³ Distribution is made from the summation of Wholesale and Retail.

⁹⁴ Business services is made from the summation of Information and Communication, Professional, scientific and technical services and Real estate, and Administrative and support service activities.

⁹⁵ This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services.

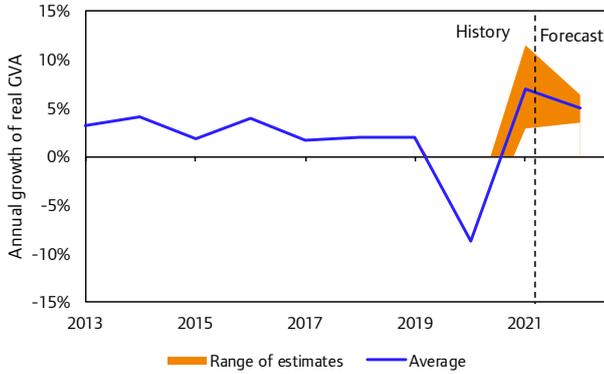
⁹⁶ For more information see Appendix A of: GLA Economics (2012). '[London's Economic Outlook: Spring 2012](#)', June 2012.

Output

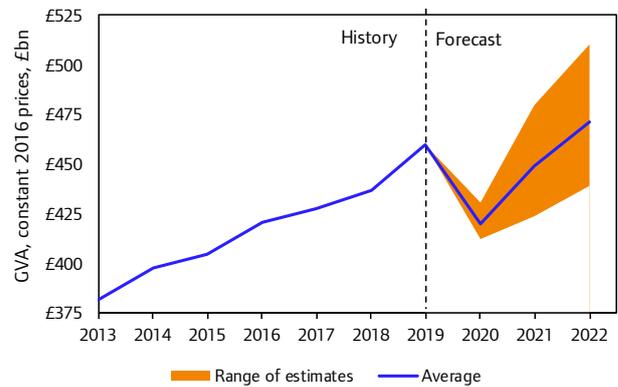
(London GVA, constant prices (base year 2016), £ billion)

The consensus (mean average view) is for real output growth to fall by -8.7% in 2020 and to rebound by 6.9% in 2021, and 5.0% in 2022.

Annual growth



Level (constant year 2016, £ billion)



Annual growth (%)				Level (constant year 2016, £ billion)			
	2020	2021	2022		2020	2021	2022
Average	-8.7	6.9	5.0	Average	419.9	448.9	471.4
Lowest	-10.4	2.8	3.5	Lowest	412.4	424.1	438.9
Highest	-6.4	11.5	6.4	Highest	430.4	479.7	510.5

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
4.6	7.2	3.2	1.1	4.1	2.4	7.3	3.0	6.9	0.7	-5.5	2.6	4.0	4.2	3.2	4.2	1.9	4.0	1.6	2.3	5.4

History: Level (constant year 2016, £ billion)

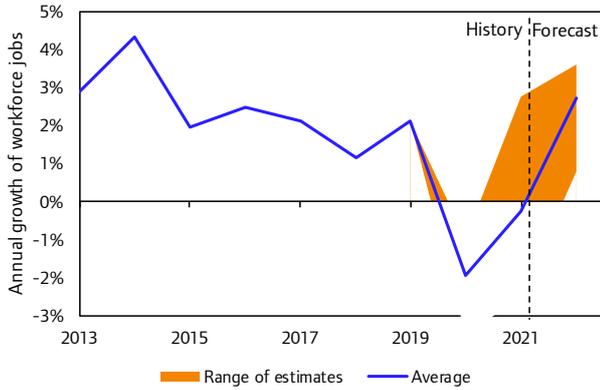
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
248.1	265.9	274.3	277.4	288.8	295.7	317.3	326.7	349.4	352.0	332.5	341.0	354.6	369.6	381.6	397.5	404.9	421.0	427.8	437.6	461.2

Employment

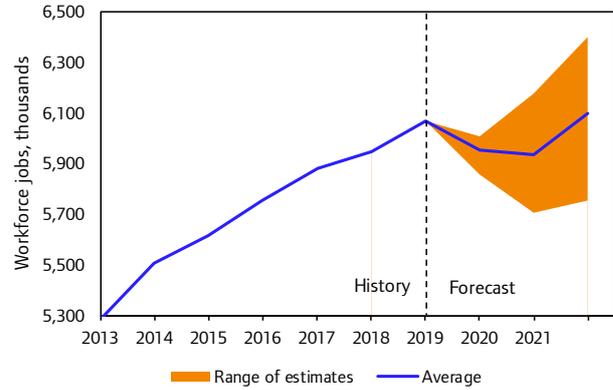
(London workforce jobs)

The consensus forecasts a generally subdued position on the growth of workforce jobs in the medium-term: -1.9% this year, -0.2% in 2021, and 2.7% in 2022.

Annual growth



Level (thousands of workforce jobs)



Annual growth (%)				Level (millions of persons)			
	2020	2021	2022		2020	2021	2022
Average	-1.9	-0.2	2.7	Average	5.95	5.94	6.10
Lowest	-3.5	-2.5	0.8	Lowest	5.86	5.71	5.75
Highest	-1.0	2.7	3.6	Highest	6.01	6.17	6.40

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
3.8	3.8	0.5	-1.4	0.5	-0.4	2.1	1.2	1.2	2.9	-2.3	-0.4	1.7	4.3	2.9	4.3	2.0	2.5	2.1	1.1	2.1

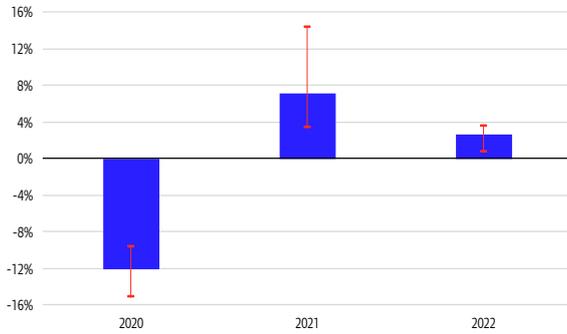
History: Level (millions of persons)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
4.49	4.66	4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.88	5.94	6.07

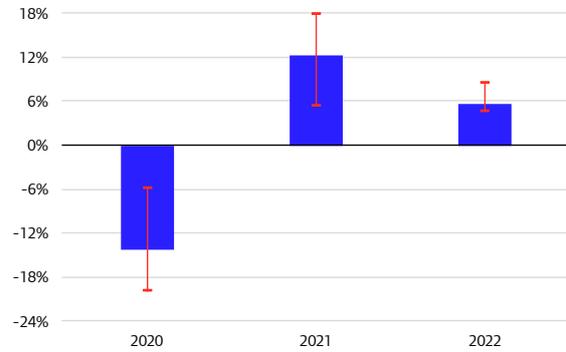
Output growth by sector (annual change)

In terms of output, the consensus sees all sectors across the economy contracting in 2020 with recovery over the following two years.

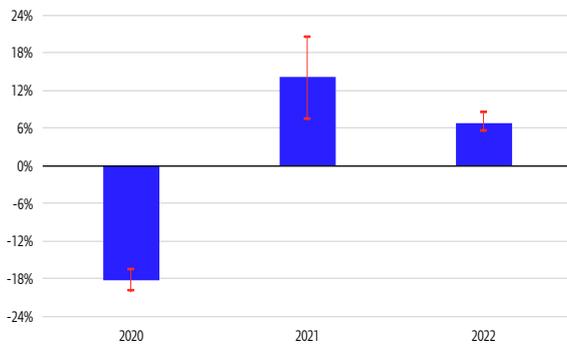
Manufacturing



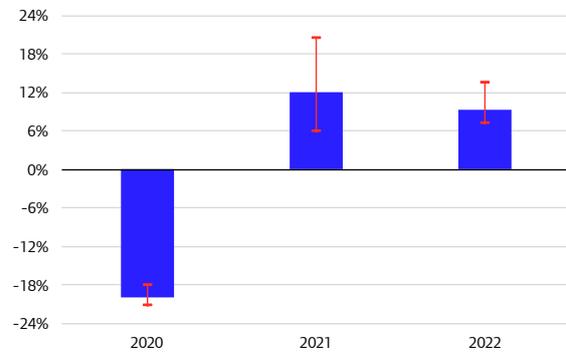
Construction



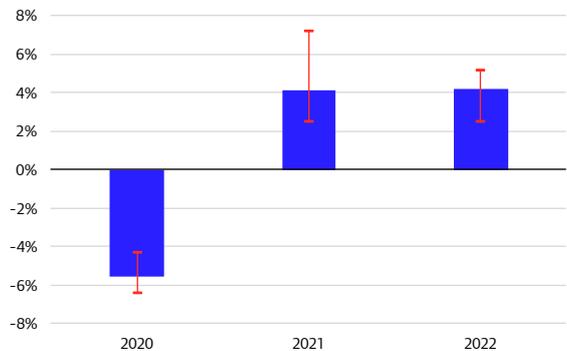
Distribution, accommodation and food service activities



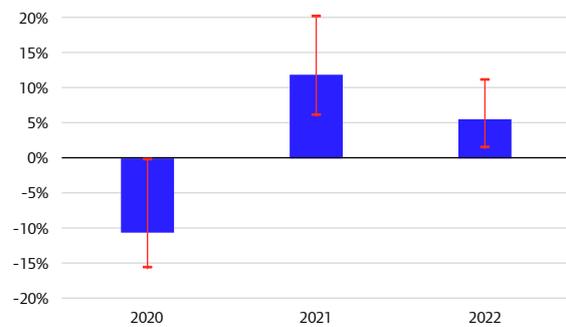
Transportation and storage



Finance and business



Other services (public and private)

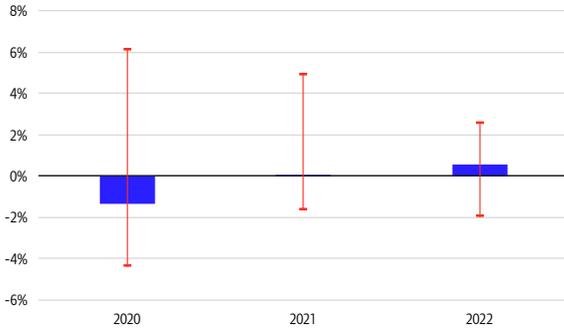


		2020	2021	2022			2020	2021	2022
Manufacturing	<i>Average</i>	-12.1	7.2	2.6	Construction	<i>Average</i>	-14.3	12.2	5.7
	<i>Lowest</i>	-15.1	3.4	0.8		<i>Lowest</i>	-19.9	5.3	4.6
	<i>Highest</i>	-9.7	14.3	3.6		<i>Highest</i>	-5.8	17.8	8.4
Distribution, accommodation and food service activities	<i>Average</i>	-18.2	14.2	6.8	Transportation and storage	<i>Average</i>	-19.9	12.1	9.4
	<i>Lowest</i>	-20.1	7.4	5.5		<i>Lowest</i>	-21.3	5.9	7.1
	<i>Highest</i>	-16.6	20.4	8.3		<i>Highest</i>	-18.2	20.4	13.4
Finance and business	<i>Average</i>	-5.5	4.2	4.2	Other services (public & private)	<i>Average</i>	-10.7	12.0	5.5
	<i>Lowest</i>	-6.4	2.5	2.4		<i>Lowest</i>	-15.8	5.9	1.3
	<i>Highest</i>	-4.3	7.2	5.1		<i>Highest</i>	-0.4	20.1	11.1

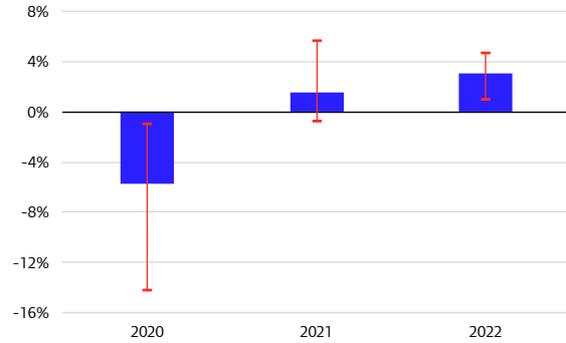
Employment growth by sector (annual change)

The consensus sees contraction in employment across all sectors of the economy in 2020, if less so than for output. There will be recovery for most sectors in the following two years with this strengthening in 2022, with the exception of Finance and business which will continue to contract in 2021 before growing in 2022.

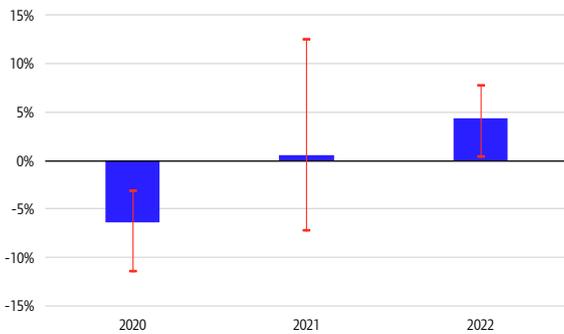
Manufacturing



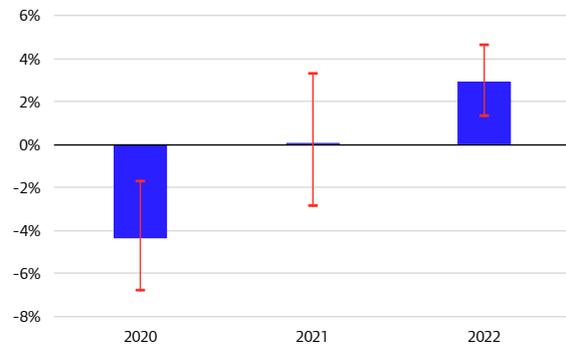
Construction



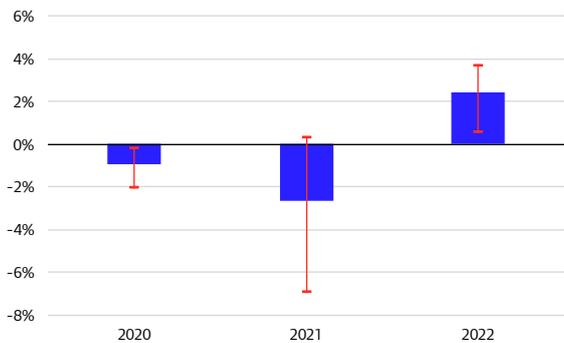
Distribution, accommodation and food service activities



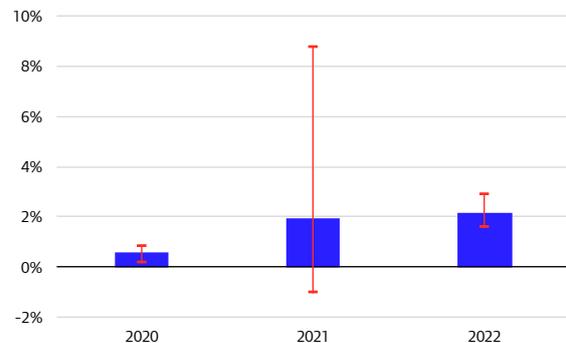
Transportation and storage



Finance and business



Other services (public and private)



		2020	2021	2022			2020	2021	2022
Manufacturing	<i>Average</i>	-1.3	0.1	0.5	Construction	<i>Average</i>	-5.7	1.5	3.0
	<i>Lowest</i>	-4.4	-1.6	-1.9		<i>Lowest</i>	-14.3	-0.8	0.9
	<i>Highest</i>	6.1	4.9	2.5		<i>Highest</i>	-1.0	5.7	4.6
Distribution, accommodation and food service activities	<i>Average</i>	-6.4	0.5	4.4	Transportation and storage	<i>Average</i>	-4.4	0.1	2.9
	<i>Lowest</i>	-11.5	-7.2	0.4		<i>Lowest</i>	-6.8	-2.9	1.3
	<i>Highest</i>	-3.2	12.5	7.6		<i>Highest</i>	-1.7	3.3	4.6
Finance and business	<i>Average</i>	-0.9	-2.7	2.4	Other services (public & private)	<i>Average</i>	0.6	1.9	2.1
	<i>Lowest</i>	-2.0	-7.0	0.5		<i>Lowest</i>	0.2	-1.0	1.6
	<i>Highest</i>	-0.2	0.3	3.7		<i>Highest</i>	0.8	8.7	2.9

5. The GLA Economics reference forecast

For business planning (for example, the likely course of revenue), estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections (this forecast) provide these estimates. It is thus necessary to distinguish carefully between the GLA's long-term employment projections⁹⁷, which are trend projections, and this forecast. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points, whereas business planning requires estimates of actual numbers. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for the historic data in the following tables and charts is GLA Economics modelling using ONS data. For the first time this analysis includes a measure of uncertainty around the central scenario using alternative scenarios developed by GLA Economics.

⁹⁷ GLA Economics (2017). ['London labour market projections 2017'](#)

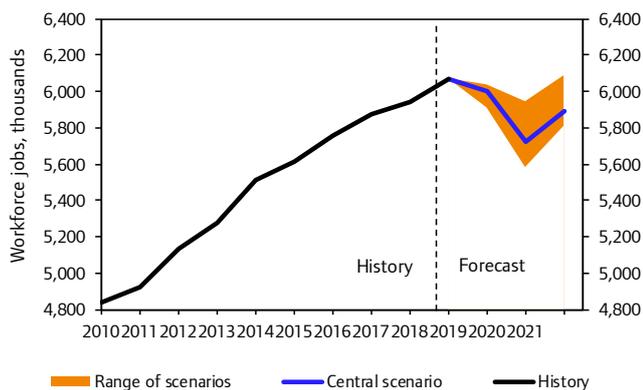
5.1 Results

London's economic output had been growing every year from 2010 to 2019. Our Bank of England and OBR consistent central scenario suggests there will be an unprecedented decline in output growth this year, and the loss in output is only expected to be regained fully in 2022. Employment is expected to fall mildly this year, more sharply in 2021, and only recover partially in 2022.

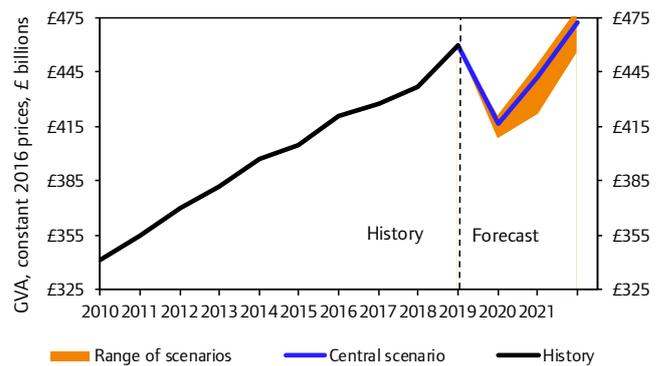
Household income and spending are also expected to grow notably below the historic trend.

Figure 5.1: Trend and scenario-based forecasts employment and output

Employment



Output



Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Table 5.1: Scenario-based forecast and historical growth rates

(Annual % change)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
GVA	4.2	1.9	4.0	1.6	2.3	5.4	-9.5	6.2	6.9
Workforce jobs	4.3	2.0	2.5	2.1	1.1	2.1	-1.1	-4.6	3.0
Household spending	7.1	3.3	5.0	1.4	1.4	1.4	-7.6	4.9	5.4
Household income	5.0	8.4	3.0	2.8	2.1	1.4	-4.1	1.7	3.5

Table 5.2: Scenario-based forecast and historical levels

(constant year 2016, £ billion except jobs)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
GVA	397.5	404.9	421.0	427.8	437.6	461.2	417.3	442.9	473.5
Workforce jobs (millions)	5.51	5.62	5.76	5.88	5.94	6.07	6.00	5.72	5.89
Household spending	171.9	177.7	186.9	189.6	192.3	195.0	180.0	188.8	198.9
Household income	208.4	227.5	234.4	241.3	246.6	250.2	232.9	236.8	245.0

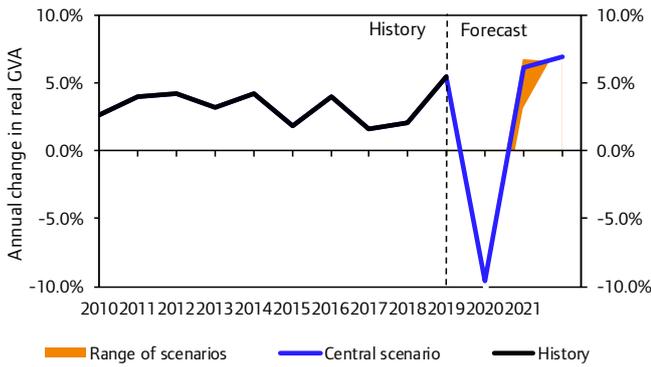
Output

(London GVA, constant year 2016, £ billion)

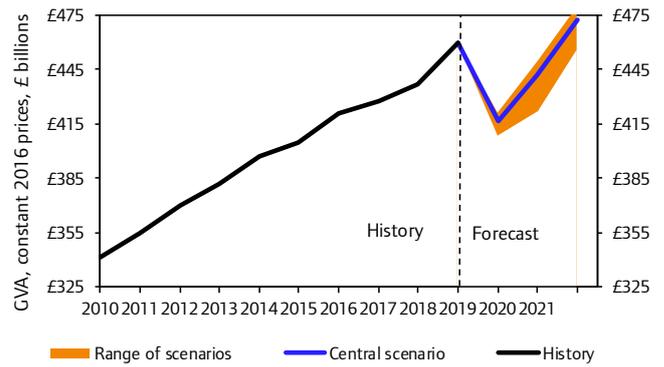
London's real GVA is forecast to decline and then recover between 2020 and 2022 at -9.5%, 6.2%, and 6.9%, respectively.

Under the slow economic recovery scenario London's economy does not recover to its level in 2019 by 2022.

Annual growth (%)



Level (constant year 2016, £ billion)



	Growth (annual %)				Level (constant year 2016, £ billion)			
	2019	2020	2021	2022	2019	2020	2021	2022
Gradual return to economic recovery	5.4	-9.5	6.2	6.9	460.1	416.2	441.9	472.3
Fast economic recovery		-8.4	6.8	6.5		421.4	450.1	479.3
Slow economic recovery		-11.2	3.2	8.2		408.7	421.7	456.2

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
4.6	7.2	3.2	1.1	4.1	2.4	7.3	3.0	6.9	0.7	-5.5	2.6	4.0	4.2	3.2	4.2	1.9	4.0	1.6	2.3	5.4

History: Level (constant year 2016, £ billion)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
248.1	265.9	274.3	277.4	288.8	295.7	317.3	326.7	349.4	352.0	332.5	341.0	354.6	369.6	381.6	397.5	404.9	421.0	427.8	437.6	461.2

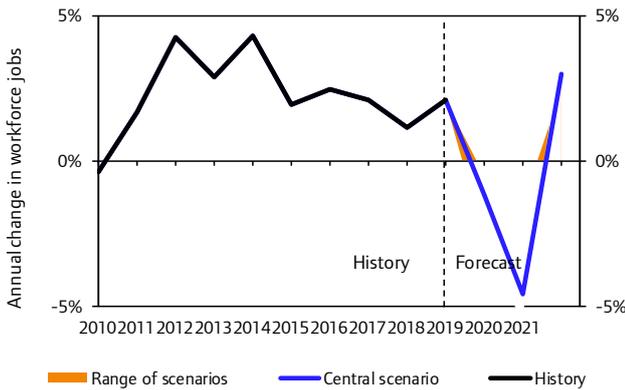
Employment

(London workforce jobs)

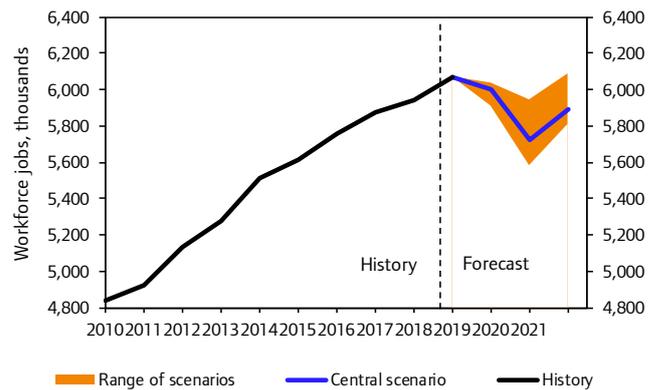
London's employment is forecast to decline and then recover partially over the forecast period. The rates of growth are predicted at -1.1% in 2020, -4.6% in 2021, and 3.0% in 2022.

Under the fast economic recovery scenario London only just returns in 2022 to the level of jobs in 2019.

Annual growth (%)



Level (millions of workforce jobs)



	Growth (annual %)				Level (millions of workforce jobs)			
	2019	2020	2021	2022	2019	2020	2021	2022
Gradual return to economic recovery	2.1	-1.1	-4.6	3.0	6.07	6.00	5.72	5.89
Fast economic recovery		-0.4	-1.6	2.4		6.04	5.95	6.09
Slow economic recovery		-2.5	-5.5	4.0		5.91	5.59	5.81

History: Annual growth (%)

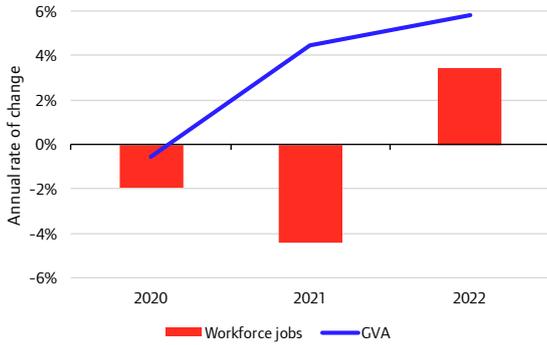
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
3.8	3.8	0.5	-1.4	0.5	-0.4	2.1	1.2	1.2	2.9	-2.3	-0.4	1.7	4.3	2.9	4.3	2.0	2.5	2.1	1.1	2.1

History: Level (millions of persons)

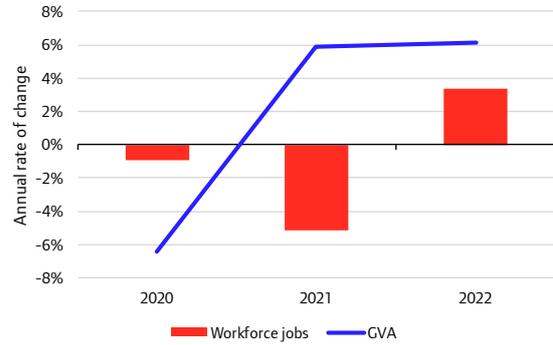
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
4.49	4.66	4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.88	5.94	6.07

Output and employment growth by sector (% annual changes)

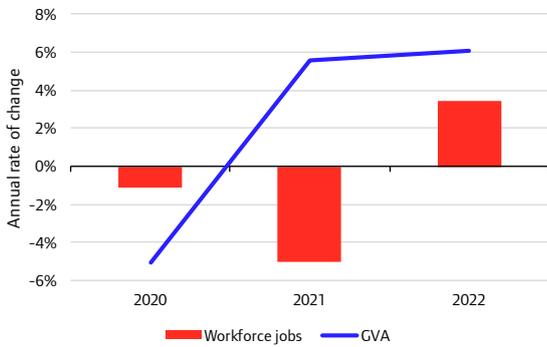
Financial services



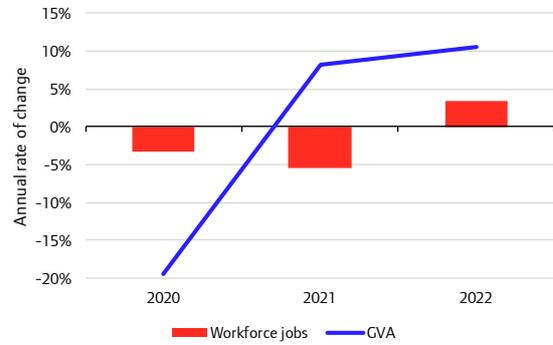
Business services



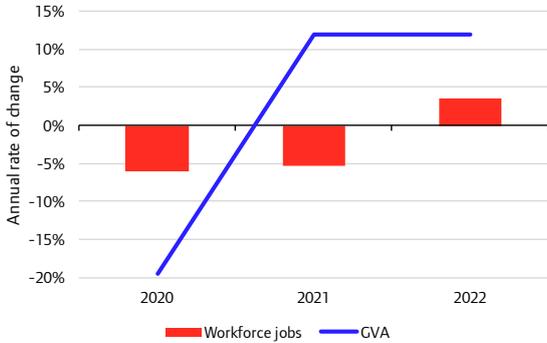
Finance and business (combined)



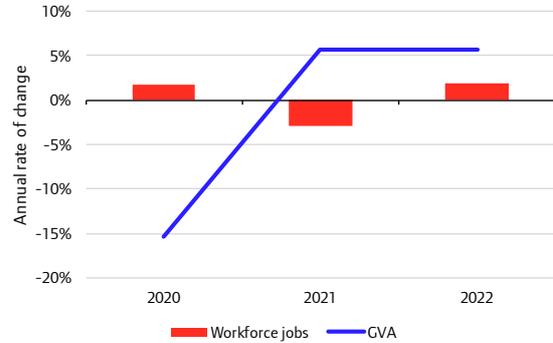
Distribution, accommodation and food service activities



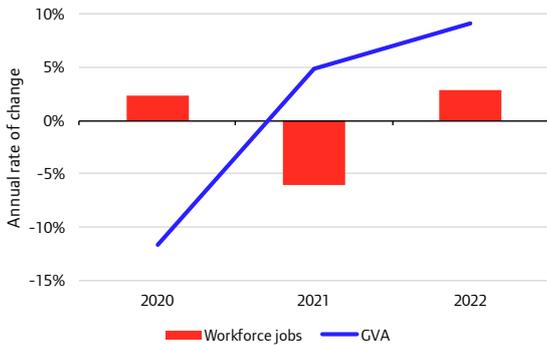
Transportation and storage



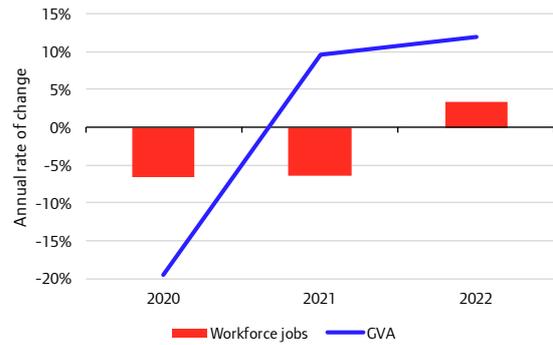
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector (% annual change)

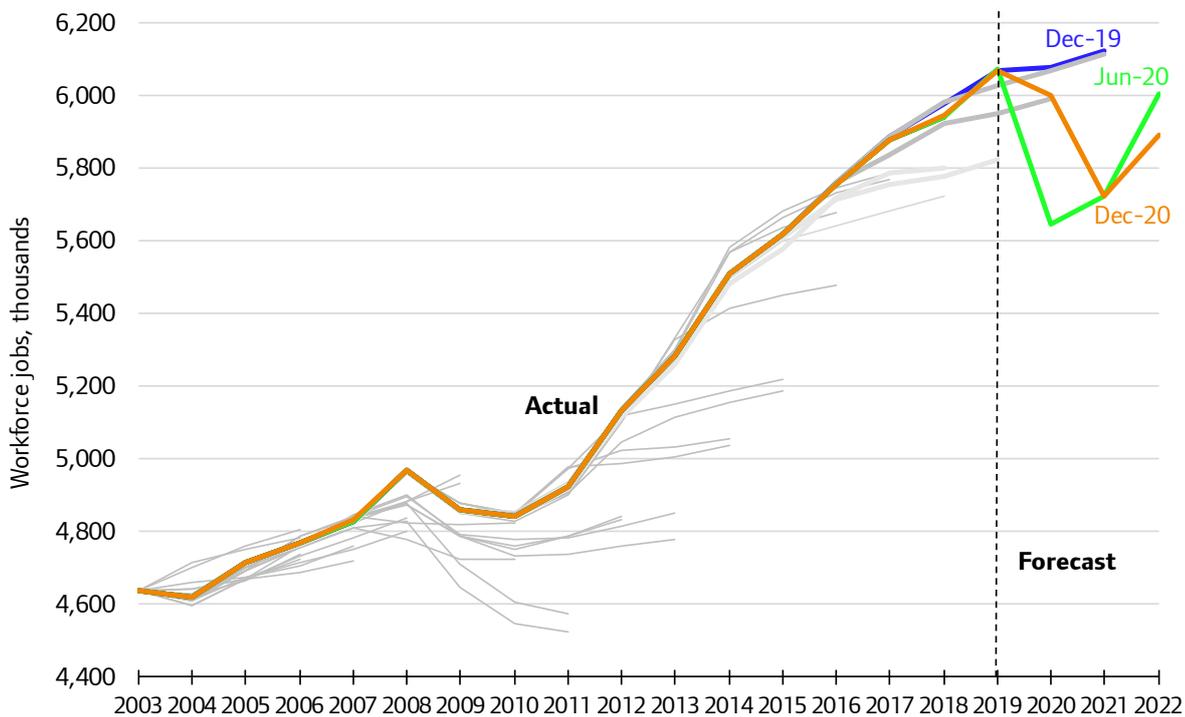
	2020	2021	2022
Financial services			
Output	-0.6	4.4	5.8
Employment	-1.9	-4.4	3.5
Business services			
Output	-6.4	5.9	6.1
Employment	-0.9	-5.1	3.4
Financial and business services combined			
Output	-5.0	5.5	6.1
Employment	-1.1	-5.0	3.4
Distribution, accommodation and food service activities			
Output	-19.4	8.1	10.5
Employment	-3.2	-5.5	3.5
Transportation and storage			
Output	-19.5	12.0	12.0
Employment	-6.1	-5.3	3.4
Other (public & private) services			
Output	-15.3	5.7	5.7
Employment	1.7	-2.9	1.9
Manufacturing			
Output	-11.6	4.8	9.0
Employment	2.3	-6.0	2.9
Construction			
Output	-19.6	9.6	11.9
Employment	-6.5	-6.4	3.3
<i>(Memo: non-manufacturing)</i>			
Output	-9.5	6.2	6.9
Employment	-1.1	-4.6	3.0

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparisons in Figures 5.2 and 5.3.

For the whole forecast period (2020-2022), the most recent GLA Economics scenario-based forecast for the level of London's workforce jobs is lower than the December 2019 forecast. Compared to the June 2020 scenario-based forecast the decline in jobs this year is less severe, while the recovery began earlier in the June 2020 scenario-based forecast and the jobs total was higher by 2022.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(thousands of workforce jobs)



Note: the grey lines show levels of employment given historic GLA Economic forecasts of employment growth rates. The last three GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 5.3⁹⁸: Comparisons with previous published forecasts
(London workforce jobs, % annual growth)

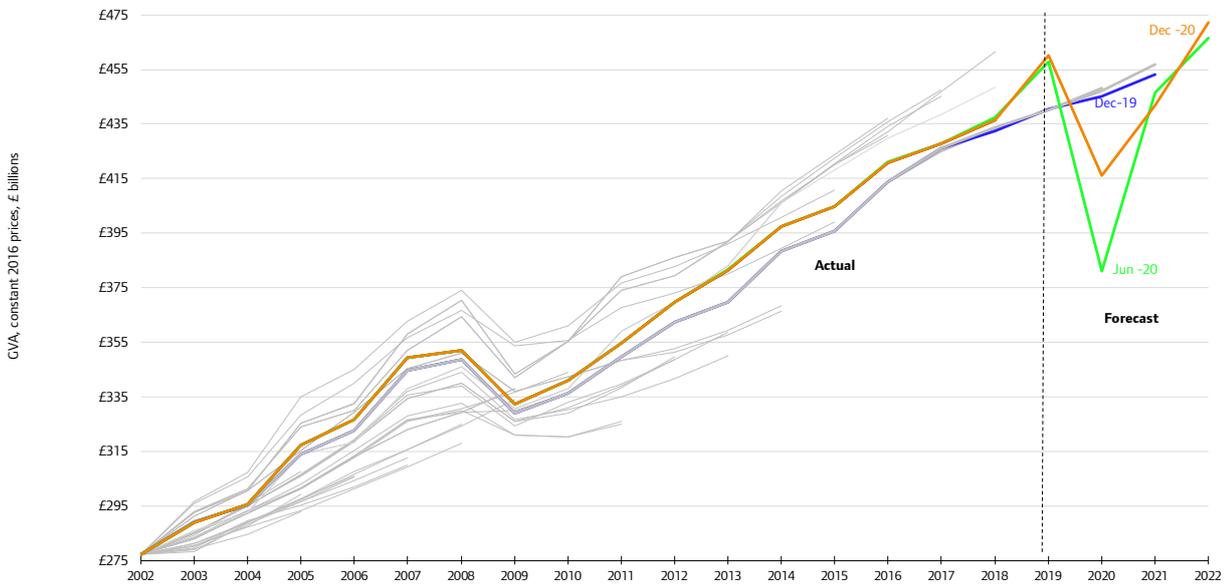
Forecast	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Dec-20	2.9%	-2.3%	-0.4%	1.7%	4.3%	2.9%	4.3%	2.0%	2.5%	2.1%	1.1%	2.1%	-1.1%	-4.6%	3.0%
Jun-20													-7.0%	1.4%	4.9%
Dec-19												1.5%	0.1%	0.7%	
Jun-19												0.8%	0.7%	0.8%	
Nov-18											1.5%	0.5%	0.7%		
May-18											0.6%	0.3%	0.7%		
Nov-17										1.4%	0.3%	0.5%			
Jun-17										0.7%	0.5%	0.7%			
Nov-16									2.5%	1.2%	0.3%				
May-16									0.7%	0.7%	0.7%				
Nov-15								1.7%	1.2%	0.7%					
May-15								1.7%	1.2%	0.7%					
Nov-14							4.5%	1.2%	0.7%						
May-14							1.6%	0.7%	0.5%						
Nov-13						1.3%	0.8%	0.7%							
Jul-13						0.6%	0.7%	0.7%							
Nov-12					1.0%	0.2%	0.4%								
Jun-12					0.2%	0.4%	0.6%								
Nov-11				0.1%	0.4%	0.4%									
May-11				0.1%	0.7%	0.8%									
Oct-10			-0.6%	0.6%	1.0%										
Jun-10			-0.8%	0.8%	1.1%										
Oct-09		-3.4%	-2.3%	-0.6%											
Apr-09		-3.8%	-2.2%	-0.4%											
Oct-08	-0.7%	-1.1%	0.0%												
May-08	-0.3%	-0.1%	0.1%												
Oct-07	0.9%	1.0%													
Apr-07	1.4%	1.5%													
Oct-06	1.1%														
Apr-06	1.1%														

Source: Various London's Economic Outlooks

⁹⁸ This table only reports forecasts for 2008 onwards unlike Figure 5.2. For earlier GLA Economics' forecasts please see previous editions of London's Economic Outlook.

The most recent medium-term scenario-based forecast for London's GVA level is slightly higher than the June 2020 scenario-based forecast in part because GVA is not expected to fall as far this year. Consequently, in terms of annual growth rates, the rate of growth of recovery in 2021 and 2022 is more moderate.

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 2016, £ billion)



Note: the grey lines show levels of GVA given historic GLA Economic forecasts of GVA growth rates. The last three GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 5.4⁹⁹: Comparisons with previous published forecasts
(London GVA, % annual growth)

Forecast	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Dec-20	0.7%	-5.5%	2.6%	4.0%	4.2%	3.2%	4.2%	1.9%	4.0%	1.6%	2.3%	5.4%	-9.5%	6.2%	6.9%
Jun-20													-16.8%	17.2%	4.5%
Dec-19												1.8%	1.1%	1.8%	
Jun-19												1.5%	1.6%	2.2%	
Nov-18											1.9%	1.6%	1.9%		
May-18											1.6%	1.9%	2.2%		
Nov-17										2.1%	1.8%	2.6%			
Jun-17										2.3%	2.4%	2.9%			
Nov-16									2.8%	2.0%	2.3%				
May-16									2.9%	3.4%	3.3%				
Nov-15								3.4%	3.2%	2.7%					
May-15								3.6%	3.2%	2.5%					
Nov-14							4.8%	3.3%	3.1%						
May-14							3.8%	3.2%	2.6%						
Nov-13						2.2%	2.5%	2.5%							
Jul-13						1.9%	2.4%	2.5%							
Nov-12					0.9%	1.8%	2.4%								
Jun-12					1.2%	1.9%	2.5%								
Nov-11				1.4%	2.0%	2.4%									
May-11				2.0%	2.6%	2.9%									
Oct-10			1.6%	2.4%	2.9%										
Jun-10			1.0%	2.8%	3.3%										
Oct-09		-3.5%	-0.2%	1.5%											
Apr-09		-2.7%	-0.2%	1.7%											
Oct-08	0.8%	0.2%	1.9%												
May-08	1.3%	1.8%	2.2%												
Oct-07	1.9%	2.6%													
Apr-07	2.8%	3.0%													
Oct-06	3.0%														
Apr-06	2.8%														

Source: Various London's Economic Outlooks

⁹⁹ This table only reports forecasts for 2008 onwards unlike Figure 5.3.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report 'employment' refers to 'workforce jobs' and uses the ONS historical series as a base for the forecast.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). GLA Economics' [London's Economic Outlook: December 2003](#) provides a more detailed explanation of this term.

At the time of writing national statistics estimates of real regional GVA are available up to 2018 from the ONS¹⁰⁰. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases, the expenditure of non-profit organisations is included and in other cases it is not.

¹⁰⁰ ONS Regional GVA (balanced approach).

Appendix B: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
BoE	Bank of England
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
Fed	Federal Reserve
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HM Treasury	Her Majesty's Treasury
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
m	Million
MPC	Monetary Policy Committee
OBR	Office for Budget Responsibility
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
TfL	Transport for London

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