GLAECONOMICS

London's Economy Today

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Chancellor outlines a one-year spending review

By **Mike Hope**, Economist, and **Eduardo Orellana**, Economist

The Chancellor of the Exchequer, Rishi Sunak, confirmed that, including support for workers and businesses, the Government has spent over £280bn since March to tackle the COVID-19 crisis and its effects. In total, there will be spending of around £170bn by public services on COVID-19 responses, £115bn by the end of this year, and another £55bn in the year to March 2022. Next year there will be an additional £3.7bn to support employment and frontline services, £3bn to support NHS recovery, £3bn to local authorities, £2bn to ensure continued operation of the railways, and £21bn of contingency funding.

In parallel, the Chancellor published the National Infrastructure Strategy to accompany an announcement of £100bn of capital spending in 2021/22, a £27bn real terms increase compared with 2019/20. This includes almost £19bn of transport investment, almost £15bn on research and development, £4.5bn to maintain and refurbish hospitals and for diagnostic equipment, and over £260m for transformative digital infrastructure programmes. This spending will be used to support levelling up of economic activity across the country. In public transport, for example, all but one of the major new capital projects in the next few years will be outside the south east. Notably the Government has stated that it will finance the completion of Crossrail.

Also in this issue

Datastore

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

In another initiative to provide funds for specific areas the Government is launching a Levelling Up Fund worth £4bn for England with £600m available in 2021/22. This cross-departmental fund will invest in local infrastructure. Some details have also emerged about the UK Shared Prosperity Fund to replace the European Social Fund. Funding will ramp up, so on a UK-wide basis it will at least match current EU receipts, at around £1.5bn a year.

As a result of this additional expenditure Public Sector Net Borrowing will be £393.5bn or 19.0% of GDP in 2020/21 before falling to 7.4% of GDP the following year. Borrowing will remain very high by historic standards. Public sector net debt rises by £473bn in 2020/21, taking the total above 100% of GDP for the first time since 1960/61. Unless the Government reverses these expenditure commitments, or borrows more, this is likely to be funded in due course through higher taxes.

London's economy goes into a second lockdown

With rising infection rates and hospitalisation of COVID-19 cases across the country the Government imposed an England-wide lockdown on 5 November. This was further to the placing of London into Tier 2 restrictions on 17 October. The lockdown is due to last until 2 December and subsequently each English region will be allocated to one of three tiers and face further restrictions; London will be placed into Tier 2.

As the lockdown will be damaging for the economy it has been accompanied by fiscal and monetary loosening to provide further support to households and businesses. The Chancellor of the Exchequer has extended the Coronavirus Job Retention Scheme (CJRS) until March as a means to protect jobs. The Job Support Scheme announced in the Winter Economic Plan, and subsequently revised, will not come to fruition. Also, on 5 November the Bank of England (BoE) has extended quantitative easing and will inject another £150bn into the money supply. This is in addition to the £300bn of quantitative easing announced earlier this year.

Economic and social activity reduce again despite healthy growth in London earlier in the year

London's economy grew by 1.5% in the year to the end of March, the last two weeks of which was when social distancing regulations came into effect. London was the only English region with growth, and England's economy shrank by -2.0% reports the Office for National Statistics (ONS). This was after very healthy growth in London in 2019 of 5.4%. Regional data on more recent GDP trends (beyond Q1 2020) are not yet available and are expected to be published in January.

There was 15.5% growth in the third quarter in the UK, rebounding from the slump of -19.8% for the second quarter, as reported by the ONS. There has been growth in the five months since April, if at a slowing rate, and by September GDP was still 8.2% below its level in February – this is greater than the fall during the 2008 financial crisis. The BoE has downgraded its forecast for the UK economy, and is expecting a contraction in this quarter of -2.0%. The BoE expects the economy to grow by 11% in 2021, offsetting most of the decline over 2020. The Office for Budget Responsibility is more pessimistic. It forecasts a fall in GDP of -11.3% in 2020, and growth of 5.5% in 2021, and 6.6% in 2022 with the economy returning to pre-crisis levels by the end of 2022.

Prior to lockdown consumer confidence in London had been declining, as reported later in the indicator section of this publication, and in October was at levels last seen during the financial crisis.

The lockdown has had an immediate and complete effect in ending restaurant bookings, and visits to social venues because they have been closed (Figure 1). While individual personal activity in London remains below levels seen prior to lockdown, there was a spike in restaurant bookings after the lockdown announcement and prior to implementation which brought bookings up to pre-COVID-19 levels. As during the first lockdown it is likely that the sectors of Accommodation and food services, Arts, entertainment and recreation, and Other services will suffer the most.

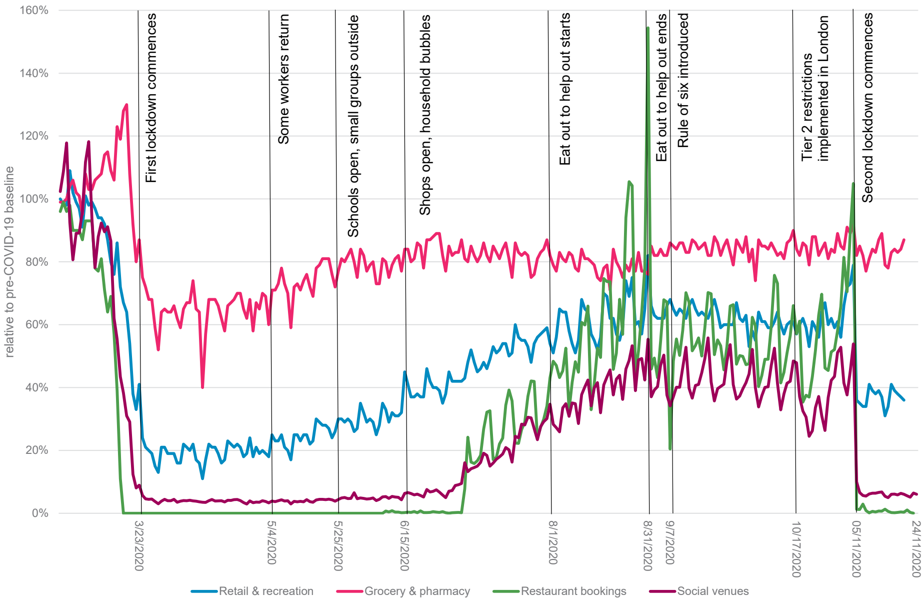
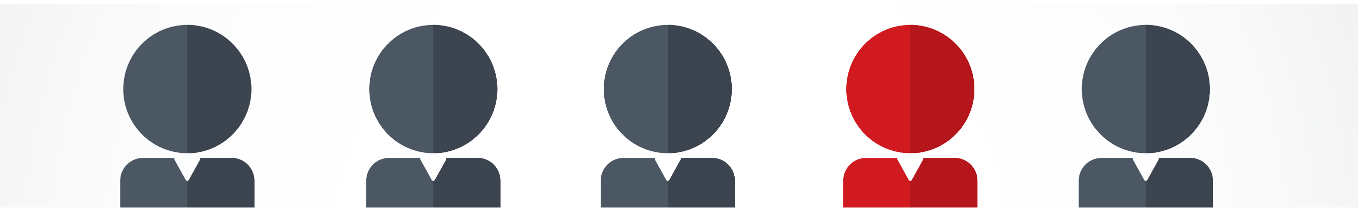


Figure 1: Individual personal activities in London, February – November 2020, relative to pre-COVID-19 baseline

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

London's labour market is weakening



There is some evidence emerging that London's labour market is doing worse than the other countries and regions of the UK. The LET indicators below report that London's unemployment rate had risen to 6.0% by September compared with 4.8% for the UK. This is despite the CJRS which is being effective at protecting jobs. The number of furloughs across the UK has declined from 8.8m in May to 3.3m by the end of August (note that this is a provisional figure and will rise as more employers make claims) . Some 90% of employees who left the furlough scheme between April and July were still on their original payroll in August – that is around 440,000 employees left the payroll, although some will have found other jobs. Around 15% of furloughed employees live in London, and a sector-by-sector GLA Economics analysis of furlough leavers suggests that around 15% of these people might have been in London, that is around 65,000 employees.

London is being disproportionately affected by total employee job losses. In the period July 2014-January 2020 the numbers of employees on payrolls grew by 13% in London, faster than any of the other countries and regions of the UK. Over the subsequent nine months employee numbers have fallen faster in London than elsewhere by -5% (Figure 2). A quarter of the 800,000 fall in UK employees has been in London. The largest month-on-month falls were in April when there was a drop of 82,000 in London.

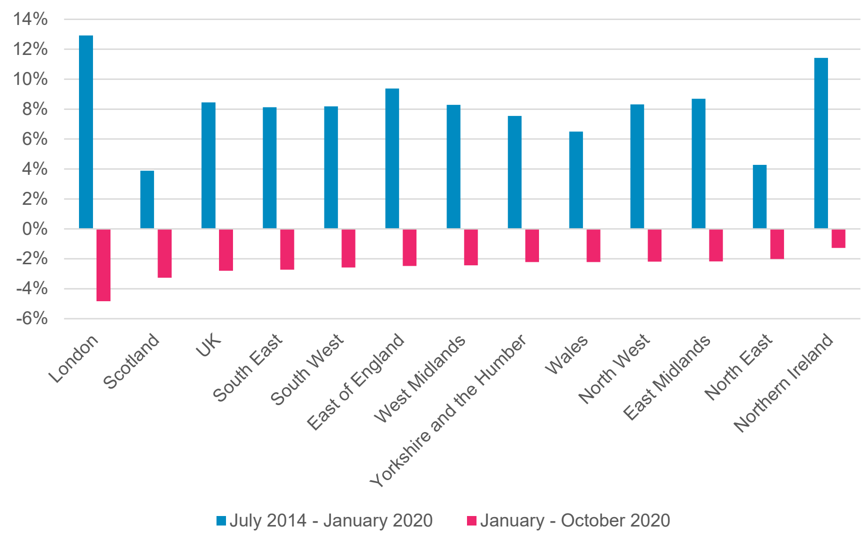


Figure 2: Changes in payrolled employees, London and the UK, July 2014-January 2020 and January-October 2020

Source: HMRC/ONS analysis of HMRC Real-time information system of payrolled employees

The growth in the claimant count, which is people claiming Jobseeker's Allowance as well as those who claim Universal Credit and are required to seek work, has risen fastest in London of all the countries and regions of the UK. This has been by over 150% between March and October compared with an increase of slightly over 100% for the UK.

Job adverts have fallen faster in London than any other country or region of Great Britain between March and October of this year (by 18.7%, according to the Recruitment & Employment Confederation). While, in six of the twelve areas of Great Britain job adverts have risen.

London's economy is suffering from far fewer tourists

The retail, leisure, and hospitality sector in London's central areas, and particularly in the Central Activities Zone (CAZ), is facing a double hit both from people working from home, and a loss of commuters, and from fewer tourists. GLA Economics analysis estimates that the likely loss of tourism income far exceeds that of commuter income. The estimated loss of worker expenditure (£1.9bn) in 2020 compared to a no-Covid scenario is significantly lower than the estimated loss of tourism expenditure (£10.9bn). This suggests that restrictions on tourists being able to visit London are having a bigger impact on expenditure, and in turn the businesses that rely on this expenditure, than workers staying at home.

London has the third most international arrivals of any world city with 19.6m arrivals in 2019 according to Euromonitor International. Fewer international and domestic tourists are impacting severely on the visitor accommodation sector. There has been a dramatic drop in the visitor accommodation occupancy rate between August 2019 and 2020. London had near the highest rate of the English regions in 2019 at 86%, but this fell to the lowest by some margin in 2020 at 30% (Figure 3). The requirement for social distancing in urban areas has clearly had an effect as has the requirement for quarantining of overseas visitors from many countries.

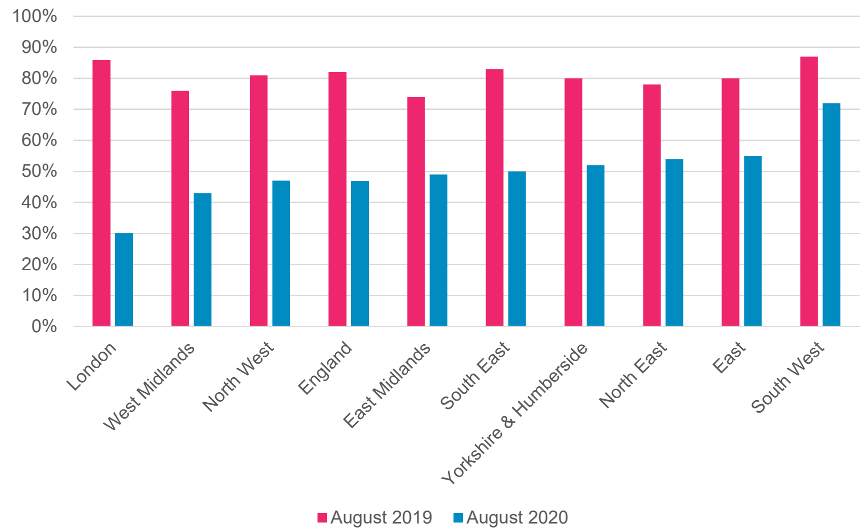
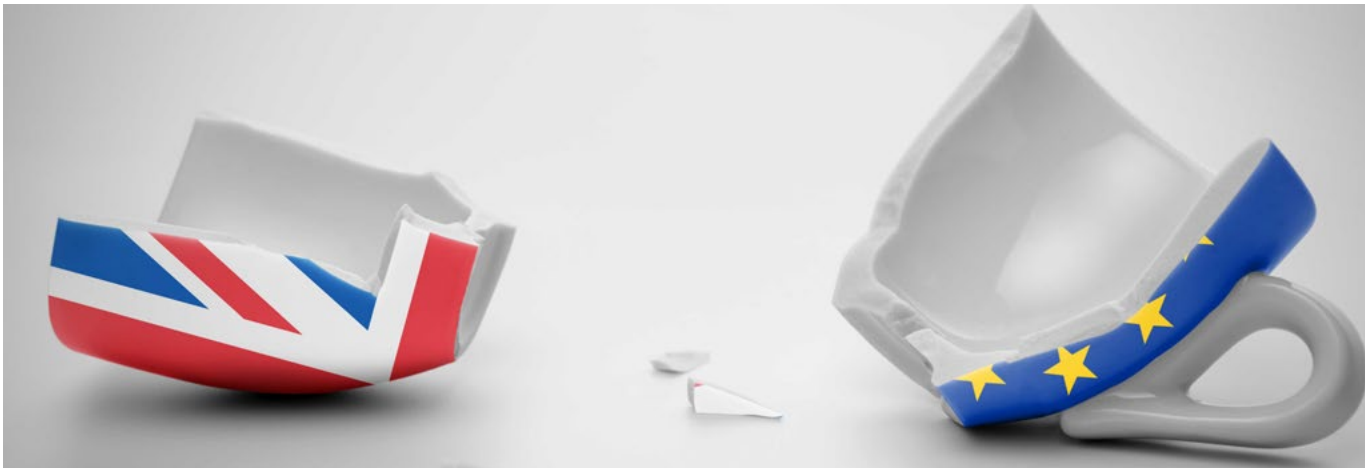


Figure 3: Visitor accommodation occupancy rate, English regions, August 2019 and 2020

Source: Visit England, England Occupancy Survey

Brexit brings risks to London's growth



It is the export-oriented service sectors which have been driving London's growth, and they are at particular risk from Brexit. Information and communications, Professional services, Finance, are export-oriented and with Real estate constituted 55% of the London economy in 2018. 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. After the depreciation of sterling in 2016 the importance of the Information and communications and Professional services sectors increased, accounting for two-thirds of London's growth to 2018, while that of the Real estate sector declined (Figure 4).

Figure 4: Share of growth in London's economy, key sectors, various periods 1998-2018

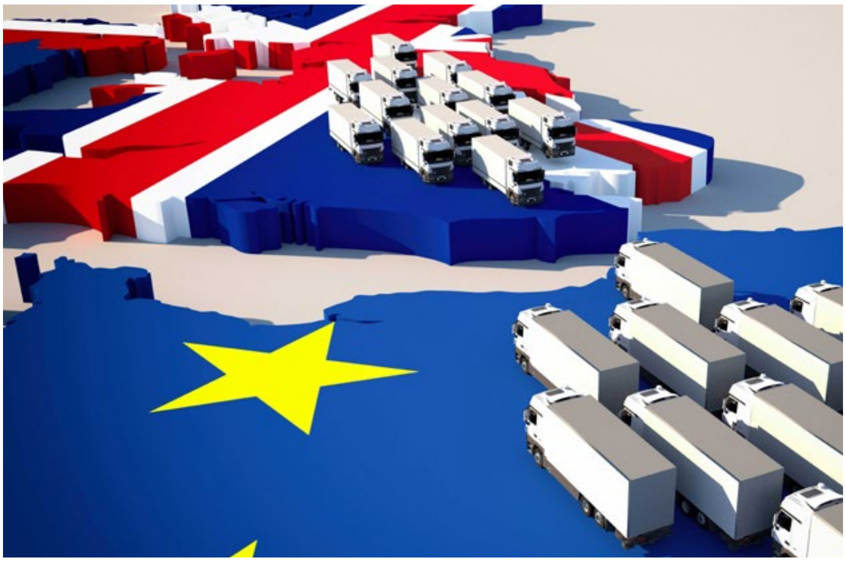
Source: ONS GVA statistics

The UK Government continues to negotiate a Free Trade Agreement with the EU, and it remains a risk that the UK will leave the transition period at the end of the year with no deal. Any Brexit deal is likely to focus narrowly on trade in goods. This will mean the introduction of non-tariff barriers, such as trading standards for Finance, non-recognition of qualifications acquired elsewhere, or the loss of right to work in another country. There is a risk, unless export-oriented sectors find a different way to manage their business, that the gains in the last few years for the London economy will be lost.

Unilaterally, the UK Government has been taking some action to mitigate these consequences. 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) states. 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 counterparties they must comply with – causing uncertainty and potential disruption to trades. 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 equivalence.

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 UK.

There is a lack of preparedness for Brexit



The transition period in leaving the EU finishes at the end of December. The BoE concludes were there a Free Trade Agreement between the UK and the EU before the end of 2020 that trade and GDP would be temporarily lower in the near term as firms adjust to the new arrangements.

Incomplete business preparedness may not help the adjustment process. The BoE reports 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.

Nor has COVID-19 helped business preparedness. Lost turnover and heightened uncertainty have put many businesses in a financially more vulnerable position and may mean that some are less able to weather the shock of Brexit.

There is likely to 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 a National Audit Office (NAO) report. 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 NAO 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 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.

Stock markets rally in response to positive global developments

The election of Joe Biden as President of the United States, and positive reports for the efficacy of COVID-19 vaccines have been seen as boosts for the world economy by its stock markets. The FTSE100 rose by 13% between 2 and 11 November, an increase of 725 points, although this remains small compared with the fall of -2,680 points between January and March.

In China, the main shares benchmark, the Shanghai Composite, rose almost 2% on Monday, as investors viewed the Biden win as positive for trade and technology policy. The expectation is that his administration might be more predictable and less confrontational.

Pfizer/BioNTech announced this month in interim findings that its vaccine for COVID-19 has 95% efficacy and has passed safety tests. The UK Government has placed an order for 40m doses enough with two doses per person for nearly a third of the population subject to granting the vaccine a licence. Moderna has reported that its vaccine is almost 95% effective and the UK Government has ordered five million doses. Meanwhile results for the Oxford/AstraZeneca vaccine suggest 70% efficacy which could rise to 90% by adjusting the dose and the UK Government has an order for up to 100m doses. As a caution, the Deputy Chief Medical Officer, Jonathan Van-Tam, has stated that the pandemic would not be over by Easter in the UK, but self-evidently the commencement of inoculation of the population would be a major step forward.

Global equity markets rallied sharply after Pfizer's announcement, led by travel and leisure companies that have been hit particularly hard by the COVID-19 crisis. British Airways parent IAG rose by a third in London, while Air France-KLM jumped 30% in Paris and Ryanair climbed 16% in Dublin. Companies seen as beneficiaries of the pandemic had the opposite reaction to the news. HelloFresh, the meal delivery service, fell 15% in Frankfurt while London-listed Ocado, the UK group that delivers groceries and sells technology, fell 12%. Zoom, the videoconferencing service, fell 17%.

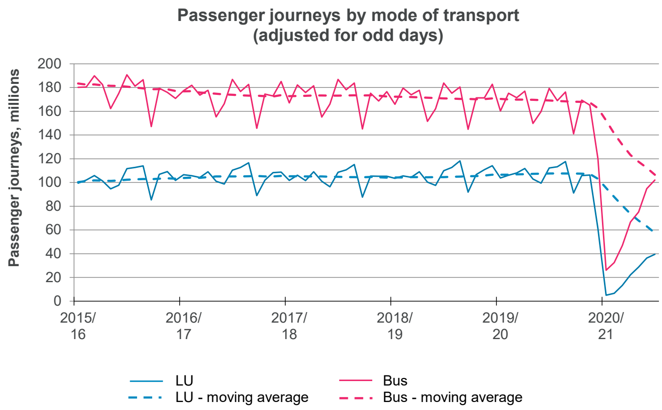
Challenges will face the capital into the new year and GLA Economics will continue to assess them and analysis will be found on our publications page.

Economic indicators

Passenger journeys in London public transport continued to rise very weakly before the November lockdown

- 141.5 million passenger journeys were registered between 20 September and 17 October this year, 10.4 million journeys more than in the previous period (23 August - 19 September) but still very low from a historic perspective. As a reference, passenger journeys in February – when there were no lockdown restrictions – were 271.4 million.
- In the period 20 September to 17 October, 39.5 million of all journeys were underground journeys and 102.0 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys continued to fall from 175.5 in the period 23 August - 19 September to 164.0 in the period 20 September to 17 October.

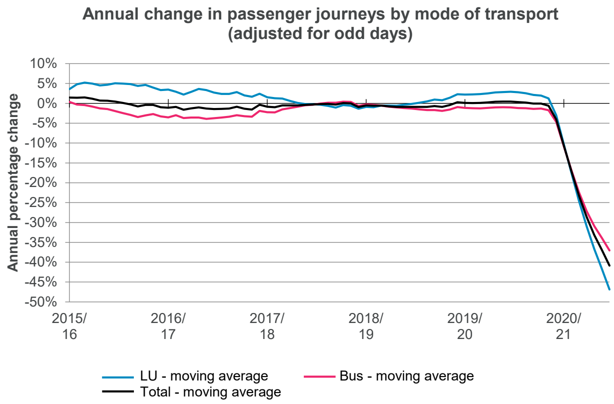
Source: Transport for London
Latest release: November 2020, Next release: December 2020



The moving average annual change in passenger journeys in London reached a new historic low in the period 20 September – 17 October 2020

- The 13-period moving average annual growth rate in the total number of passenger journeys was -40.9% in the period 20 September – 17 October, down from -37.0% in the period 23 August - 19 September and reaching a new historic low.
- The moving average annual growth rate of bus journeys decreased from -33.9% to -37.0% between the above-mentioned periods. Likewise, the moving average of underground passenger journeys went down from -41.7% to -46.9% between those periods.
- The reduced demand on both modes results from the prolonged Government advice not to use public transport except for essential journeys.

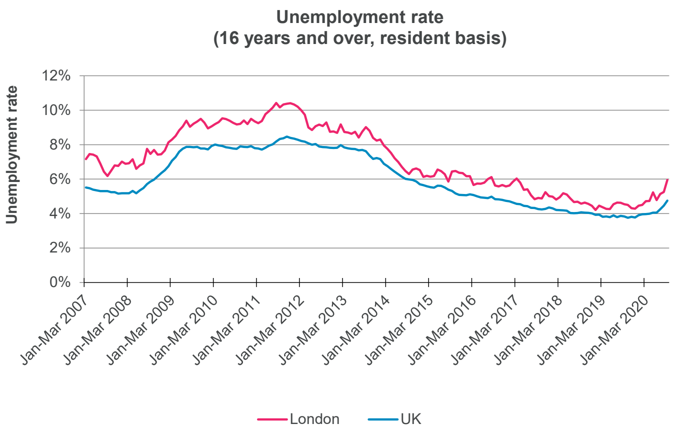
Source: Transport for London
Latest release: November 2020, Next release: December 2020



London's unemployment rate rose to 6.0% in the third quarter of the year, the highest rate since Q1 2017

- 301,000 residents 16 years and over were unemployed in London in the period July to September 2020.
- The unemployment rate in London was 6.0% in that period, up from 4.8% in Q2 2020 and representing the highest rate since the first quarter of 2017.
- The UK's unemployment rate also increased but to a lesser extent than in London, from 4.1% in Q2 to 4.8% in Q3 2020.

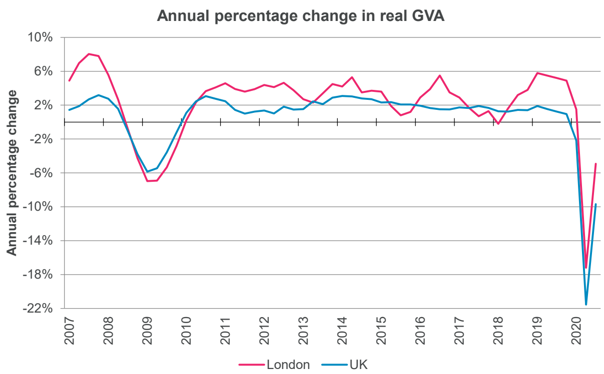
Source: ONS Labour Force Survey
Latest release: November 2020, Next release: December 2020



London's economy is estimated to have grown by 16.5% in the third quarter of this year compared to the previous quarter, following a historic contraction of 19% in the first half of the year due to the COVID-19 pandemic

- London's real GVA grew by 16.5% in Q3 - compared with Q2 - after two quarters registering negative quarterly rates. In annual terms, the economy declined by -4.9% in Q3 after a historic annual fall of -17.2% in the second quarter of the year. These rates are GLA Economics estimates.
- London's real GVA in Q3 2020 remained a 5.6% below its pre-crisis level in Q4 2019.
- The UK's real GVA annual growth rate for Q3 2020 was -9.7% after an annual fall by -21.5% and -2.2% in the second and first quarters of the year, respectively.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the two most recent quarters have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

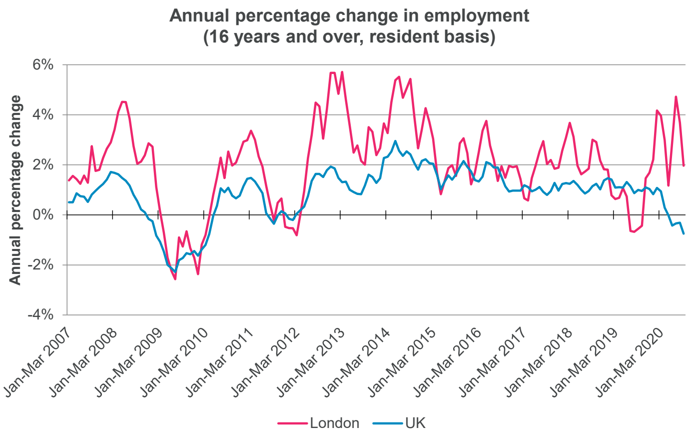
Source: ONS and GLA Economics calculations
Latest release: November 2020, Next release: January 2021



London's annual employment growth rate was 2.0% in the third quarter of the year, down from 2.9% in Q2 2020

- 4.76 million London residents over 16 years old were in employment during the three-month period July – September 2020.
- The rate of employment growth in the capital was 2.0% in the year for the mentioned period, 0.9 percentage points down from Q2 2020.
- In the same direction, UK's employment annual growth rate reduced from -0.4% in Q2 2020 to -0.8% in Q3 2020, the lowest rate since Q1 2010.

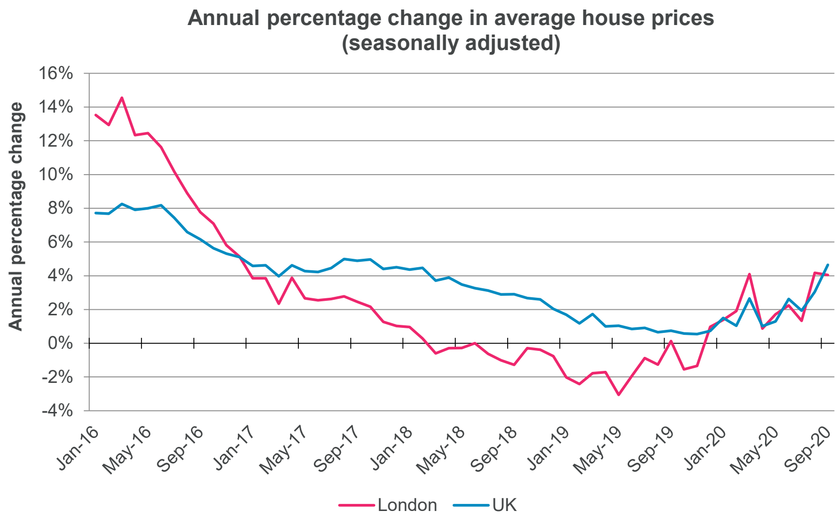
Source: ONS Labour Force Survey
Latest release: November 2020, Next release: December 2020



London house prices increased by 4.0% in annual terms in September

- In September 2020, the average house price in London was £492,835 while for the UK it was £240,240.
- The annual growth rate in average house prices in the capital was 4.0% in September, a bit down from 4.2% in August.
- Average house prices in the UK rose by 4.6% in annual terms last September, 1.5 percentage points above the same rate in August.

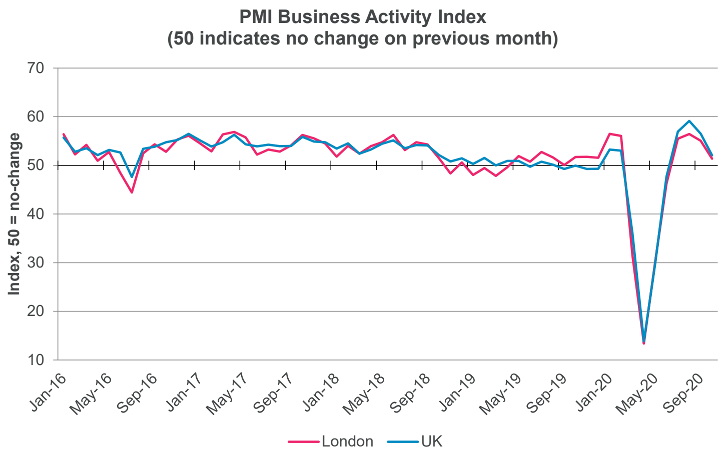
Source: Land Registry and ONS
Latest release: November 2020, Next release: December 2020



In October, London's PMI business activity index decreased for the second consecutive month but sentiment remained positive

- The business activity PMI index for London private firms went down from 55.1 in September to 51.4 in October.
- The UK index also dropped from 56.5 in September to 52.1 in October.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

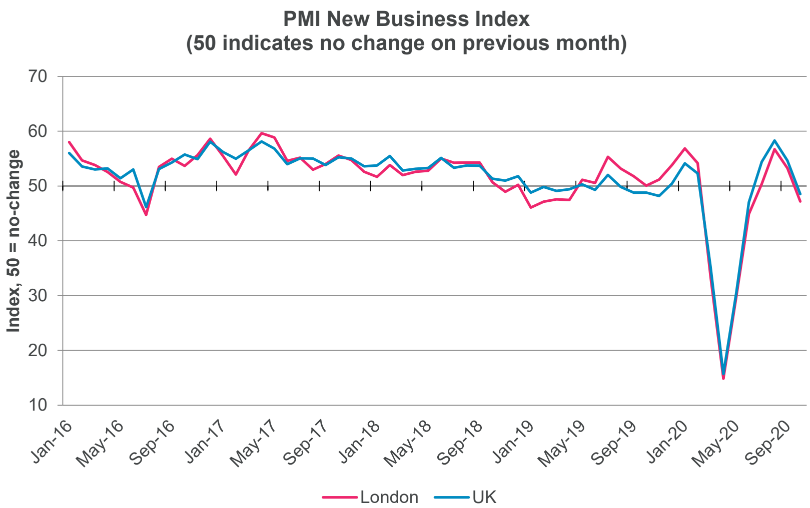
Source: IHS Markit
Latest release: November 2020, Next release: December 2020



In October, the PMI new business index decreased and sentiment turned negative in the month

- The PMI new business index in London went down in October (47.2) from 53.3 in September.
- The UK index also decreased from 54.7 to 48.5 in the same period.
- An index reading above 50.0 indicates an increase in new orders from the previous month.

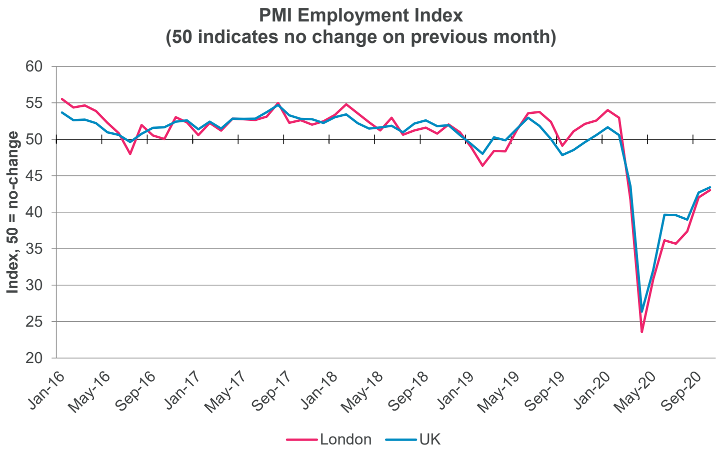
Source: IHS Markit
Latest release: November 2020, Next release: December 2020



In October, the PMI employment index in London remained as weak as it was in September

- The Employment Index for London was broadly unchanged in October (43.0) compared to September (42.0) and still well below the neutral figure of 50.0. Since March, the majority of firms have been reporting monthly a worsening of employment prospects.
- Similarly, this index was 43.4 in October and 42.7 in September. for the UK.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

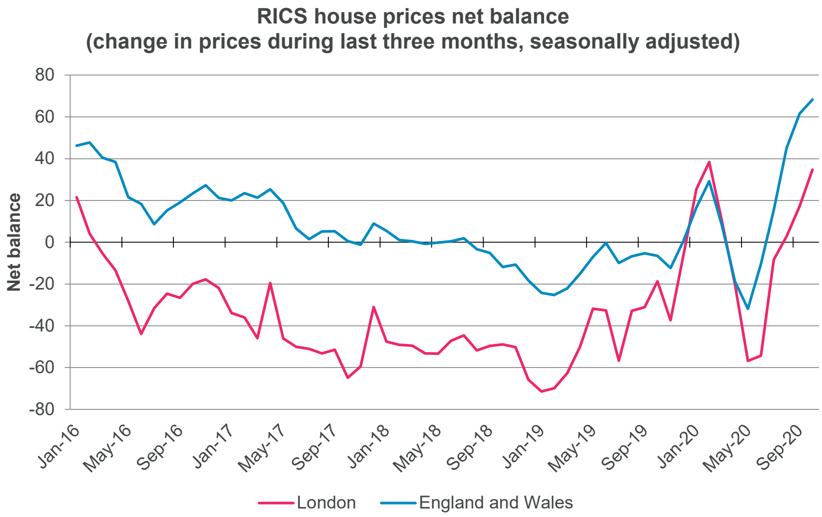
Source: IHS Markit
Latest release: November 2020, Next release: December 2020



The net balance of property surveyors reporting a rise in house prices in London recovered to its February level

- In the three months to October, the net balance of property surveyors reporting a rise in house prices was 35. This level not only implies an increase from September (17) but also the highest figure in this index since February.
- For England and Wales, the RICS house prices net balance index was 68 in October, up from 62 in September.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

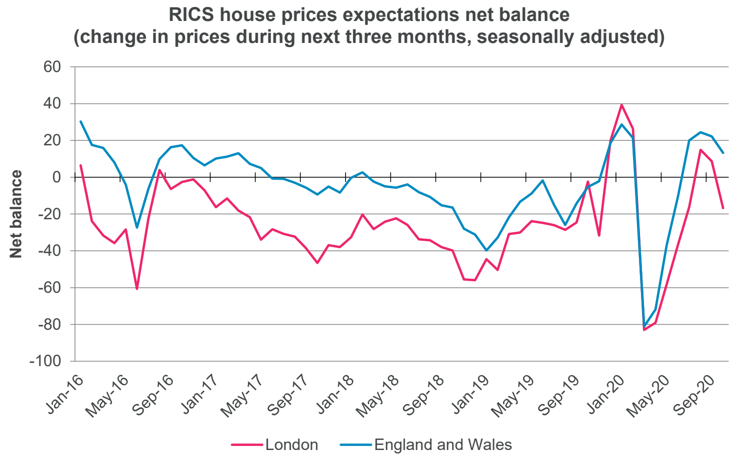
Source: Royal Institution of Chartered Surveyors
Latest release: November 2020, Next release: December 2020



In October, expectations of future house prices in London turned negative and went back to July levels

- Surveyors reported negative expectations with regards to London house prices (-17) between August and October, after two months reporting positive expectations.
- Sentiment in England and Wales was still positive in October (13) but also declined with respect to September (22).
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

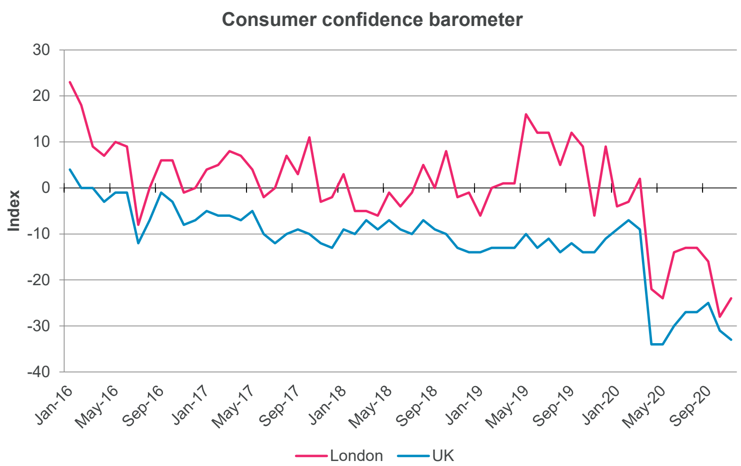
Source: Royal Institution of Chartered Surveyors
Latest release: November 2020, Next release: December 2020



Consumer confidence in London remained very negative in November

- In November, the consumer confidence index in London registered the same level as last May (-24), a very low figure by historic standards but slightly up from the eight-year low seen in October (-28). This index has been negative since April.
- The sentiment for the UK decreased from -31 in October to -33 in November. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK NOP on behalf of the European Commission
Latest release: November 2020, Next release: December 2020



Analysis on the impact of the 2017 business rates revaluation

By **Joe Heywood**, Data scientist

Background

The GLA received a number of requests for research following a recent workshop between the GLA and London Councils. Among these requests was the impact of the 2017 business rates revaluation on the viability of London businesses. The dataset the GLA has used to test this is called Sqwyre, and includes merged data from the Valuations Office Agency (VOA), commercial ratepayer data from most local authorities, including London boroughs, enriched with national statistics data on employment and gross value added.

This dataset is updated every quarter and has a lag of around three months before it is made available. GLA research aims to investigate how the change in business rates resulting from the 2017 revaluation correlates with a change in business viability/dynamics.

The data the GLA received from the Sqwyre database includes:

- A measure of occupation status (vacancies) broken down by:
  - Total floor space
  - Number of hereditaments
  - Total value
- Measures of rates reliefs (divergence of rates paid from expected rates)

The Sqwyre dataset covers the time period from 2010 to the second quarter of 2020. Each of these measures is available for Greater London, Inner London, Outer London and all of the London boroughs. It also has equivalent values for England as a whole and other cities in the UK: Birmingham and Cambridge.

Summary of findings

This summary focuses on retail and office hereditaments. These two categories have shown different patterns, and have reacted differently to the rates rise in 2017 and more generally since 2010.

The expected rates in the chart below are the rental valuation multiplied by the appropriate rates multiplier for that year, region and class of property. The reported rates are the actual rates paid by the median business in the London boroughs. Figure A1 compares the expected rates against the rates reported. We have found that the increase in rates in 2017 made a noticeable impact, but since then, the reported rates have continued to diverge downwards compared to expected rates.

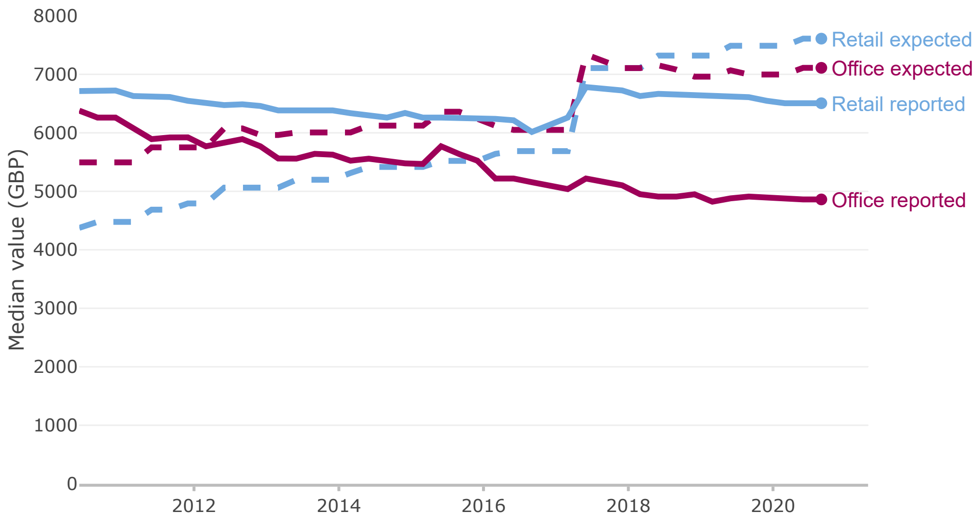


Figure A1: Reported compared to expected rates, Q1 2010 to Q2 2020

Source: Sqwyre - derived from VOA and local authorities data

Figure A2 compares the total floor area of occupied and void hereditaments, again comparing the office and retail sectors. In the office sector, there was a very large increase in floor space from the end of 2014. This is most likely as a result of large office blocks being completed and made available for occupation. With this more abundant space, there is also more void space for offices. But this does not suggest a problem with the viability of businesses, since the total occupied space also grew during the same time. In retail, a similar pattern has emerged. But the increase in total space has not been as large.

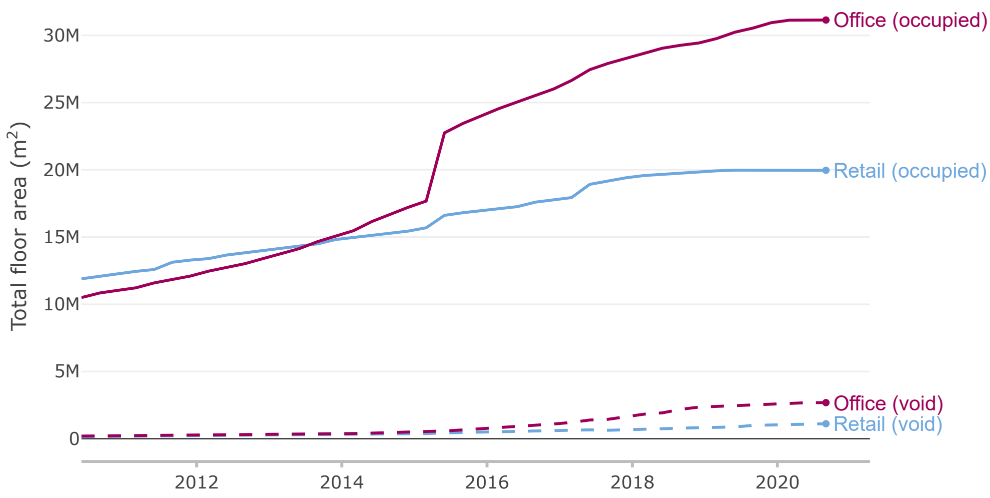


Figure A2: Total occupied and void floor area, Q1 2010 to Q2 2020

Source: Sqwyre - derived from VOA and local authorities data

Finally, in Figure A3 we highlight the reduced average hereditament size for office space. This pattern is not limited to the capital. Similar trends can also be found in England as a whole. This could suggest that companies have physically restructured office workspaces as a way of reducing rental and rates costs. This trend was evident before 2017 and has continued since. Given the nature of the physical space that offices and retail outlets occupy, retail companies do not have the same flexibility to be able to do this, so retail spaces have remained roughly the same during the same period.

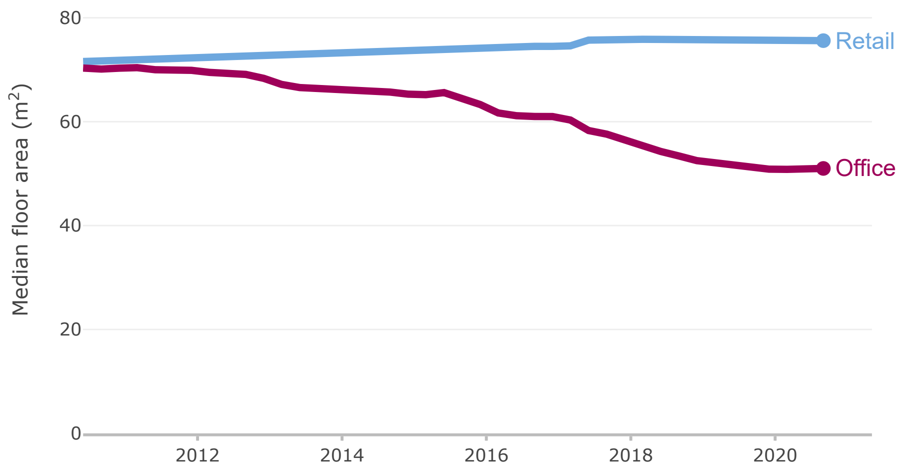


Figure A3: Median occupied size for office and retail sectors, Q1 2010 to Q2 2020

Source: Sqwyre - derived from VOA and local authorities data

Conclusion

This data has not shown definitively that the revaluation of 2017 has directly impacted on the viability of businesses. It has, nevertheless, highlighted some interesting patterns and trends in how companies and organisations have adapted to higher rates and rents. In London, offices occupy spaces that can be relatively easily partitioned. In recent years, many of us who work in offices have become accustomed to hotdesking, and remote working has allowed companies to reduce the size of their offices. This has not been practical for retail outlets - so the same trends have not been found there. This would suggest that concerns about rates are more likely to be found in high street retail outlets than landlords or tenants of office workspaces.

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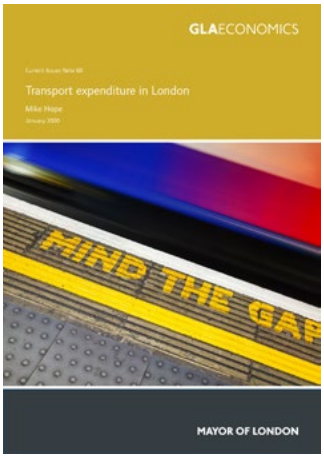

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the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

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