GLAECONOMICS

London's Economy Today

Issue 227 | July 2021

The economy continues to pick up gradually although difficulties are becoming apparent

By **Mike Hope**, Economist, **Jasmine Farquharson**, Higher Apprentice

Despite increasing COVID-19 infection rates the government lifted most of the remaining social and business restrictions on 19 July. The economy continues to grow following the series of easings of the January lockdown restrictions.

According to the latest data from the Office for National Statistics (ONS) the UK economy grew by 0.8% in May, and, although this is the fourth consecutive month of growth, the economy remains 3.1% below its pre-pandemic level in February 2020 (Figure 1). The UK-wide service sector, which is of particular importance to the London economy, grew by 0.9% in May, and remains 3.4% below its February 2020 level. More noticeably, within the service sector, Accommodation and food service activities grew by 37.1% in May as restaurants and pubs welcomed customers back indoors following the easing of coronavirus restrictions on them. Despite the increase, the size of the sector remains 18.3% below its February 2020 level, while Arts, entertainment and recreation remains a quarter smaller. More positively Finance, Public administration, and Wholesale and retail have recovered to their pre-pandemic levels.

On the day of the lifting of social and business restrictions, European equities had their worst day of the year as the growing threat of the Delta variant triggered falls in global share markets and commodities. The London FTSE 100 shed 2.3%. It is thus becoming less evident that widespread vaccination by itself will be sufficient to contain the impact on the economy of the spread of the virus. The Prime Minister, Boris Johnson, has not ruled out re-introducing a wide range of restrictions.

Also in this issue

Datastore

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

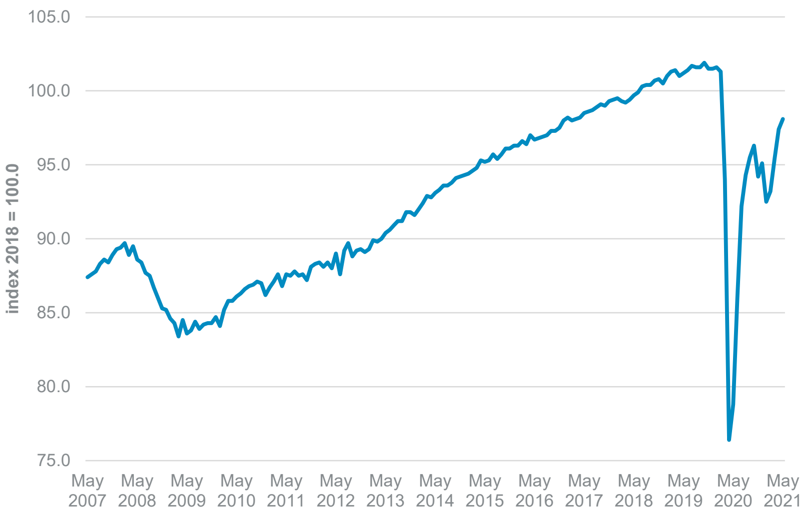


Figure 1: UK monthly GDP, Monthly index, May 2007 to May 2021, UK, 2018 = 100

Source: ONS

London remains reliant on the furlough scheme despite labour market improvements

As a first step towards the ending of the Coronavirus Job Retention Scheme, at the end of September, from 1 July employers needed to contribute 10% of the wage of any employees on furlough. This is part of the withdrawal of the package of financial support to help businesses and households through the pandemic crisis. It includes the ending of the £20 weekly uplift in Universal Credit and the stamp duty holiday, and the increase in the VAT rate for hospitality, accommodation and some attractions from 5% to 12.5%.

The UK labour market looks healthy as the number of employee jobs, as measured by the HM Revenue and Customs (HMRC) Real Time Information system, has increased by 1 million between February and June from 28.0m to 29.0m. The corresponding increase for London has been 150,000 to 4.0m employee jobs. However, London is the only country or region of the UK where employee jobs (including people on furlough) is now not higher than pre-pandemic levels in February 2020.

London continues to be more reliant on the furlough scheme than the rest of the UK (Figure 2). The number of furloughs of jobs in London has fallen from 753,000 in mid-January to 419,000 by the end of May, or by less than half. For England the number of furloughs has fallen from 4.0m to 2.0m or by half.

Take-up has been higher in Accommodation and food services, and Arts, entertainment and recreation sectors, and was over half of all employees in these sectors in both London and England in March. While there had been dramatic falls for both geographies in the take-up rate by May, it was still markedly higher than for other sectors, and the fall was larger for England.

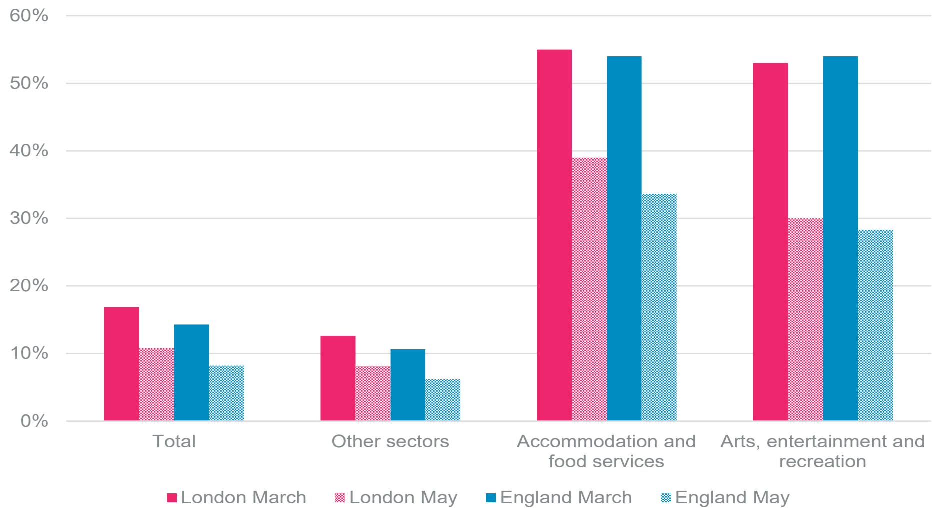


Figure 2: Percentage of employees on furlough, Accommodation and food services, Arts entertainment and recreation, other sectors, and all sectors, London and England, March and May 2021

Source: HMRC Coronavirus Job Retention Statistics

The hospitality sector in London faces particular challenges as international tourists have not been coming in significant numbers, and workers have also been slow to return to the office. Footfall and spend data, collated by the Centre for Cities, reveals that the recovery has lost momentum. London is the city with the lowest footfall recovery. Across the cities of the UK a slow return to the office is associated with a weak recovery in the night time economy.

As a sign of misallocation of resources the sectors where it is most common to use the furlough scheme are also the sectors with fast rising numbers in job vacancies. The ONS notes that in Accommodation and food services, "there is evidence of a shortage of skilled staff and of employees finding alternative areas of employment prior to the reopening". It is a sector which employed a high proportion of workers from the European Economic Area, some of whom may have returned home rather than face uncertainty around their future prospects in the UK labour market soon after COVID-19 became prevalent.

The number of UK job vacancies in the three months to June has climbed past pre-pandemic levels in the first three months of 2020. The rise was driven by vacancies in Accommodation and food services and Retail, while Arts, entertainment and recreation recorded the sharpest rise in vacancies.

A further challenge for the Accommodation and food services sector is the numbers of people self-isolating after a notification from the Test and Trace system. UK Hospitality said one in five staff in the sector were self-isolating but that businesses were experiencing surges with more than a third of staff missing in some areas. The context is that in the week ending July 14, more than 600,000 contact-tracing alerts were sent to residents in England telling them to self-isolate. The Prime Minister defended the Test and Trace system as individuals identified as contacts of cases were at least five times more likely to eventually contract the virus. This has also caused growing concerns about staff absences in essential industries, and the government has responded by announcing that workers from 16 key sectors including health and transport will not have to isolate if notified.

This will not include the retail sector, and some supermarkets have faced difficulties stocking some shelves. As an indication of the scale of the problem Iceland, in response to 1,000 staff being notified by the Test and Trace system, plans to hire 2,000 temporary extra store staff to cover absences.

Inflation continues to rise sharply

Inflation rose strongly in the UK and the US in June but fell slightly in the Eurozone. Annual inflation in the UK reached 2.5% in June, above the Bank of England's central symmetrical target of 2%, up from 2.1% in May, and 0.4% in February. This is the highest annual inflation rate since August 2018, although it remains below the level reached after the exchange rate depreciation following the EU Referendum. Inflation in the United States rose to 5.4% in June, the highest rate since before the financial crisis more than ten years ago (Figure 3). In comparison, annual inflation fell slightly in the Eurozone from 2.0% to 1.9% in June.

Figure 3: Monthly consumer price inflation, UK, US, and Eurozone, June 2008 – June 2021

Source: ONS, Federal Reserve Bank of St Louis, and Eurostat

Differences in opinion about whether increases in inflation would be temporary or persistent became prominent when the former Chief Economist at the Bank of England (BoE), Andy Haldane, and the Governor of the BoE, Andrew Bailey offered different perspectives recently.

Andy Haldane argued there were three sources which might lead to persistent price inflation:

- The opening up of the economy as COVID-19 restrictions are lifted;
- A powerful fiscal and monetary response to the crisis which was likely to generate more demand than needed for recovery;
- Spending of private sector savings that people and businesses had hoarded during the crisis.

In favour of this argument is the pace of rising inflation, and that in the UK price rises have been widespread, although other factors may also have played a part:

- Brexit – the introduction of barriers to trade, even though there are zero tariffs on goods, will have made the imports of goods and services more expensive;
- The third consecutive month of higher than expected inflation indicates that businesses have responded to the relaxation of restrictions with an effort to build profit margins.

Andrew Bailey gave three reasons why the increase in inflation might be temporary:

- The recovery from the pandemic was unusual because supply was getting back to normal at the same time as demand so it was likely that there would be temporary imbalances, or bottlenecks, in some sectors. Many of the factors behind these constraints are global in nature, reflecting shortages of products and transport capacity, set against the strength of the recovery to date and expectations of strong future growth;
    - In the US price jumps have so far been most significant for sectors directly affected by the pandemic, and where supply is trying to meet pent-up demand. For example, airfares have soared, while a semi-conductor shortage for new cars has contributed to a jump in used car prices;
    - In the UK there have been price increases for food and for second-hand cars where there are reports of increased demand.
- Some of the inflation now being measured arose simply because prices had fallen a year ago so the comparison was with the depth of the first wave of the pandemic. This is the case for fuel prices;
- Spending was likely to be directed at parts of the economy with spare capacity as patterns of demand normalised.
    - In June in the UK there was an increase in prices for clothing and footwear, compared with the normal seasonal pattern of summer sales.

Opec+ responded to the rise in oil prices by agreeing to increase global production by 400,000 barrels a day each month into 2022. This will have a dampening effect on the growth in inflation.

More broadly, and in favour of caution in the pace of tightening monetary policy, UK and US labour markets remain short of pre-pandemic employment levels, the fiscal stimulus is being withdrawn, and fallout from the crisis on a global scale could still pose risks for both economies.

The House of Lords (HoL) economic affairs committee, which includes distinguished economists Mervyn King (also a former governor of the BoE), and Nicholas Stern, has concluded that there were "risks, given where the economy is, that inflation could take off", and while the BoE says that it will be temporary, it should spell out "the plan if it turns out that is not the case". If the BoE "does not respond to the inflation threat sufficiently early, it may be substantially more difficult to curb later". Reining in the government's fiscal support, such as the furlough scheme, over the coming months will ease inflationary pressures, but the BoE is still planning to extend quantitative easing (QE), which risks being inflationary.

The effect of the UK's much faster than anticipated rise in inflation is that market expectations of the next interest rate rise have been brought forward to late 2022 from mid-2023. While, the HoL report calls for the BoE to outline a road map that demonstrates how it intends to unwind QE.

Banks continue to have the capital and liquidity to support the UK economy

The Bank of England published its latest Financial Stability Report in July with its current view on the stability of the UK financial system. Support from the financial system and the government has helped to keep business insolvencies relatively low. UK debt vulnerabilities have increased modestly. The increase in indebtedness has been more substantial among Small & Medium sized Enterprises (SMEs), and in some sectors, particularly those most affected by restrictions on economic activity – these firms may be more vulnerable to increases in financing costs. A large part of the additional debt has been issued at relatively low interest rates via government sponsored loan schemes. Households and businesses, though, are likely to need continuing support from the financial system as the economy recovers and the government's exceptional support measures unwind over the coming months. There is a risk that banks may cut lending to defend capital ratios rather than support viable, productive businesses with an adverse effect on the economy, and perversely banks' capital ratios.

Ministers prepare for a tough spending round

The Chancellor, Rishi Sunak, is due to announce a three-year spending settlement for government departments in the Autumn. The Exchequer has a £300bn deficit at a time of huge pressures on public services. Higher inflation will reduce the value of cash settlements and rising interest rates would increase public borrowing costs. The NHS, schools and defence have already secured long-term spending settlements. After a decade of austerity, the spending envelope announced at the Spring Budget indicates that other departments face a real-terms cut in their budgets for 2022/23 and only a 1% increase in the following years. The Institute for Fiscal Studies (IFS) has noted that this would mean spending up to £17bn less on services than what was planned prior to the pandemic, despite rising costs and rising demands. Paul Johnson, the director of the IFS, has commented, "The chancellor's medium-term spending plans simply look implausibly low". The Office for Budget Responsibility has said that there was at least £10bn a year of additional spending arising from the pandemic. There are also spending pressures on the NHS, schools, courts and social care.

International agreement to set global minimum corporate tax rate

One hundred and thirty economies, including the world's leading economies, have signed up to a plan to require multi-national companies to pay a global minimum corporate tax rate of at least 15%. This will ensure that the largest companies, including Big Tech, luxury goods groups, and pharmaceutical companies, pay at least $100bn a year more in taxes, with more of that money going to the countries where they do most of their business. The Organisation for Economic Cooperation and Development (OECD), where the talks were held, said the rules should be put in place next year and implemented in 2023.

Certain industries will be exempt from the agreement, including of particular relevance to London, the financial services sector. It is already the case that regulation forces banks to be separately capitalised in every jurisdiction in which they operate, so that they declare profits and pay tax in the countries where they do business. In return, the UK has agreed to dismantle its digital services tax which is focused on American technology companies.

The process of decoupling the UK and EU economies continues after Brexit

There continues to be political tensions between the UK and EU around Brexit. The UK government has put forward new proposals to adapt the Northern Ireland protocol, which the EU has rejected. The EU has suggested that the UK would be obliged to pay €47.5bn (£40.8bn) for past commitments. This is a higher sum than previously thought, and HM Treasury has insisted that the settlement remains within its previous central range as there are differences in methodologies employed.

The process of some companies re-locating some or all of their businesses from the UK to the EU continues. JP Morgan has made Paris its hub for EU financial trading in the absence of an EU-UK equivalence agreement for trading in financial services. While, OpenStreetMap is looking to move part of its operation to the EU due to the lack of agreement for mutual recognition of database rights.

Foreign Direct Investment in London had been growing

For the first time the ONS has published at a sub-national level experimental statistics of the UK stock of Foreign Direct Investment (FDI), that is the sum of investment flows over time less depreciation. The UK stock of FDI increased by over 50% between 2015 and 2019 from £1,030bn to £1,560bn. London, of the UK countries and regions, benefits the most receiving 40% of the investment over each year of the period, with the total rising from £415bn in 2015 to £660bn in 2019. The South East of England is the next most important destination for this investment, and with London, accounts for over half of the stock of FDI in the UK (Figure 4). There was, however, a slight dip in the stock for London and the UK in 2019.

Figure 4: The stock of FDI to London, the South East of England, and the rest of the UK, 2015-19

Source: ONS FDI statistics
Note: the rest of the UK includes some FDI which could not be allocated to the countries and regions of the UK

Higher investment in London is not simply a matter of the relative size of London's economy. London also had the highest inward stock of FDI per job in 2019. For every job in London, there is £109,000 of FDI stock, followed by the South East, which has £40,000 of FDI per job.

For the UK, and nine of the twelve of its countries and regions, the EU is the most important source of the FDI stock, at 44% of the total stock. For London, the value of the FDI stock from the Americas (37% of the total) was higher than for the EU (30%). Some of this investment in the past may have been to use the UK as a gateway to EU markets.

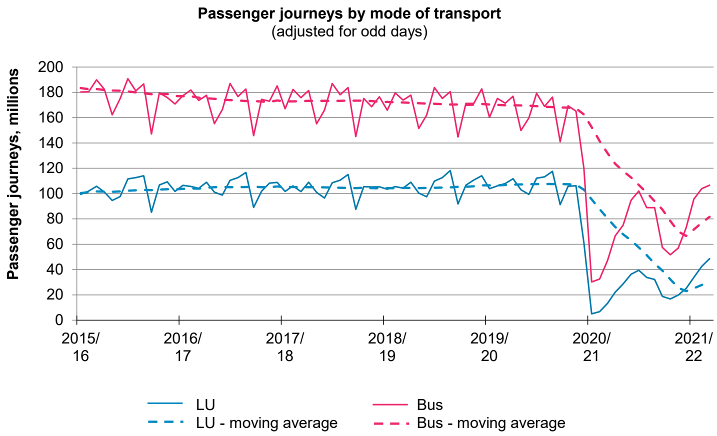
We will continue to review how London's economy develops, and examine impacts and recovery from the COVID-19 crisis in our research, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport continue to recover gradually from a low base

- 155.2 million passenger journeys were registered between 30 May and 26 June 2021, 8.7 million journeys more than in the previous period (2 May– 29 May). This is during the continued easing of the third lockdown.
- In the latest period, 48.6 million of all journeys were underground journeys and 106.6 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 105.0 in the previous period to 112.3 in the latest period.

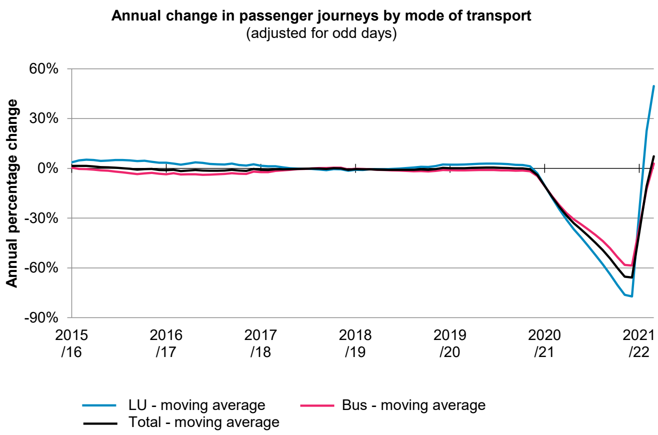
Source: Transport for London
Latest release: July 2021, Next release: August 2021



The moving average annual change in passenger journeys in London increases for the first time since 2019

- The 13-period moving average annual growth rate in the total number of passenger journeys was 7.3% in the period 30 May– 26 June, up from -10.9% in the period 2 May – 29 May.
- The moving average annual growth rate of bus journeys increased from -12.5% to 2.9% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 22.5% to 49.6% between those periods.

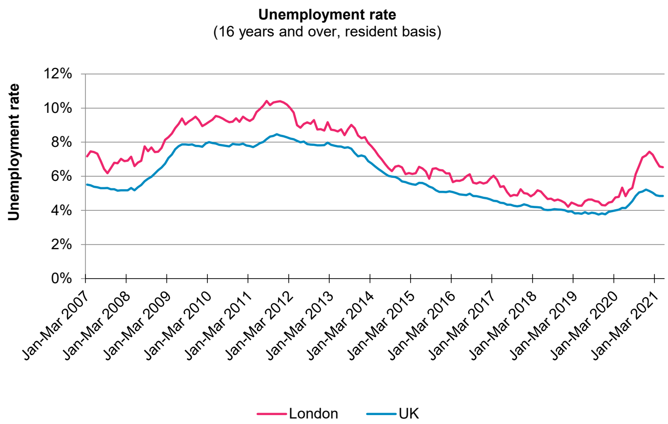
Source: Transport for London
Latest release: July 2021, Next release: August 2021



London's unemployment rate fell slightly to 6.5% in the quarter to May 2021, although it remains near the highest rate in seven years

- Around 330,000 residents 16 years and over were unemployed in London in March - May 2021.
- The unemployment rate in London was 6.5% in that period, down from 7.3% in the previous quarter, December – February 2021, and representing one of the highest rates in seven years. The UK's unemployment rate also decreased, from 5.0% in December - February to 4.8% in March - May.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

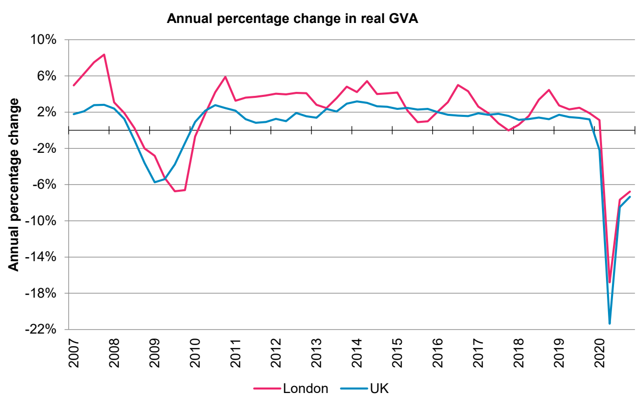
Source: ONS Labour Force Survey
Latest release: July 2021, Next release: August 2021



London's economy is estimated to have contracted by -6.8% in the year to Q4 2020

- London's real GVA grew by 1.3% in Q4 - compared with Q3 - after growth of 13.3% in the previous quarter. This has not been sufficient to offset the decline of 17.2% in the second quarter.
- London's real GVA in Q4 2020 remained 6.8% below its pre-crisis level in Q4 2019.
- The UK's real GVA quarterly growth rate for Q4 2020 was 1.3% after a fall of 19.5% in the second quarter and a recovery of 16.9% in the third quarter. Overall UK GVA in Q4 remained 7.3% below its pre-crisis level in Q4 2019.
- London's real GVA quarterly estimates for both the period Q1 1999 to Q4 2012 and the most recent quarter have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

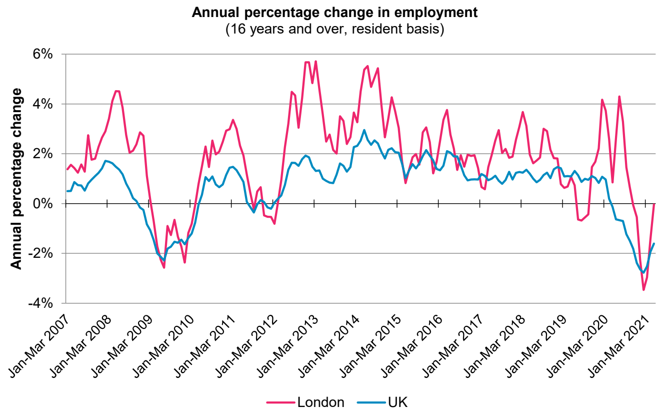
Source: ONS and GLA Economics calculations
Latest release: June 2021, Next release: August 2021



London's annual employment growth rate was zero in the quarter to May 2021

- Around 4.7 million London residents over 16 years old were in employment during the three-month period of March - May 2021.
- The rate of employment growth in the capital was 0.0% in the year to this quarter, the first non-negative rate since August – October 2020. It is 3.5 percentage points higher than December – February 2021.
- The decline in the UK's employment annual growth rate was -1.6% in the most recent quarter, and -2.8% in the previous quarter.
- The ONS is advising that levels and changes in levels in labour market estimates should be used with caution. These are aligned to official population estimates which do not currently reflect the impact of the COVID-19 pandemic. Estimates of rates from the Labour Force Survey remain robust and reliable.

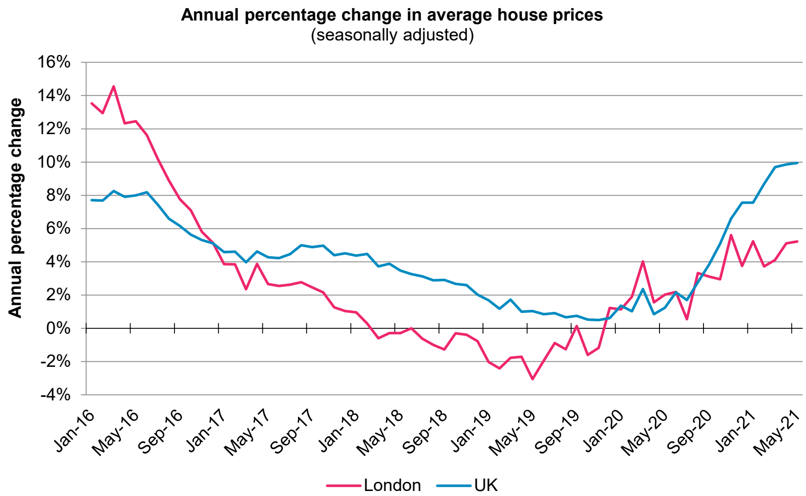
Source: ONS Labour Force Survey
Latest release: July 2021, Next release: August 2021



House prices year-on-year continue to rise in London

- In May 2021, the average house price in London was £496,000 while for the UK it was £254,000.
- The annual growth rate in average house prices in the capital was 5.2% in May, marginally up on March (5.1%).
- Average house prices in the UK rose by 9.9% in annual terms in May, the same as in April.
- The stamp duty holiday may be a contributory factor to rising house prices.

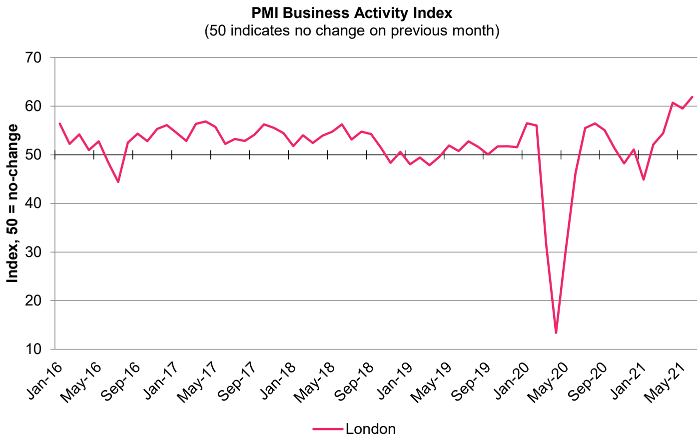
Source: Land Registry and ONS
Latest release: July 2021, Next release: August 2021



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

- The business activity PMI index for London private firms increased slightly to 61.9 in June from 59.5 in May. It is near its highest level for nearly eight years.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

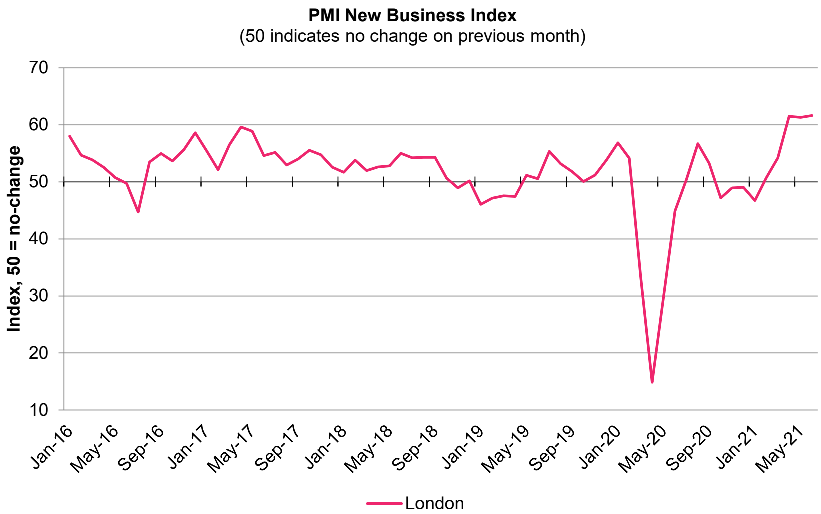
Source: IHS Markit for NatWest
Latest release: July 2021, Next release: August 2021



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

- The PMI new business index in London steadied at 61.6 in June compared with 61.3 in May. The five months from February onwards are the first time there has been positive sentiment since September. The index is at its highest level for six years.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

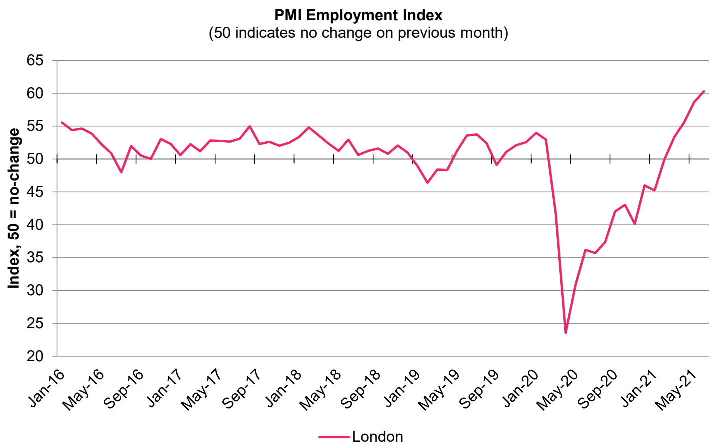
Source: IHS Markit for NatWest
Latest release: July 2021, Next release: August 2021



In June, the sentiment of the PMI employment index in London remained positive for the fourth consecutive month and was improving

- The Employment Index for London rose from 58.6 in May to 60.3 in June. Previously, the last time sentiment was positive was in February 2020. The index is at its highest level since 1997.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

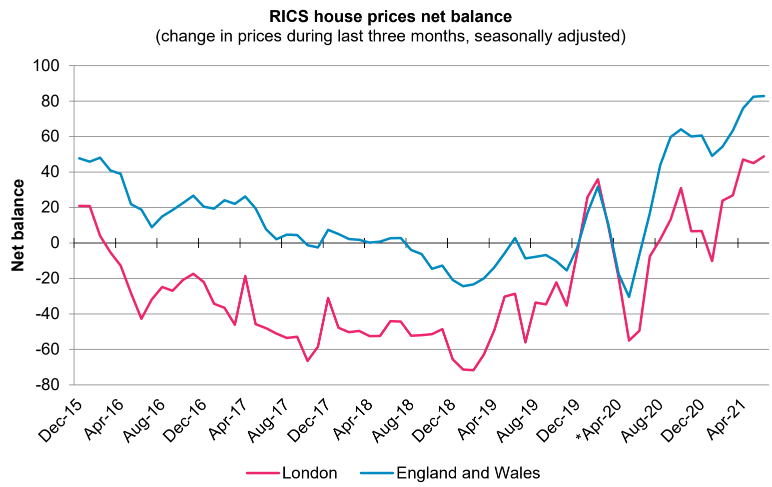
Source: IHS Markit for NatWest
Latest release: July 2021, Next release: August 2021



The net balance of property surveyors reported a rise in house prices in London in June

- In the three months to June, the net balance of property surveyors reporting a rise in house prices was 49, slightly higher than 45 in May.
- For England and Wales, the RICS house prices net balance index rose slightly in June to 83 from 82 in May.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

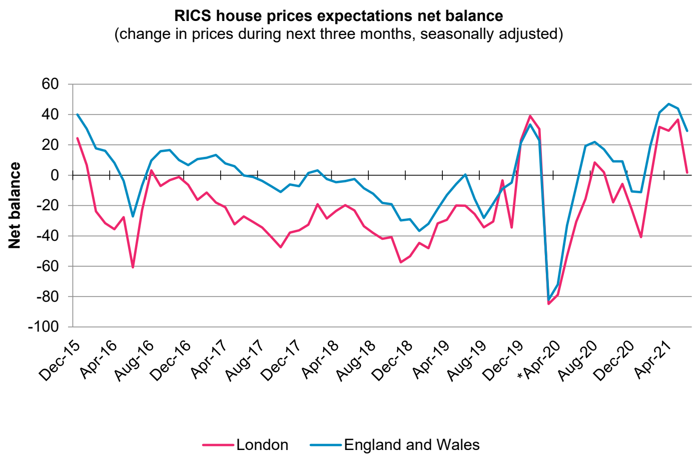
Source: Royal Institution of Chartered Surveyors
Latest release: July 2021, Next release: August 2021



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

- The net balance of house prices expectations was 2 in June in London, down on the figure for May of 37.
- Sentiment in England and Wales was 29 in June a significant change from 44 in May.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

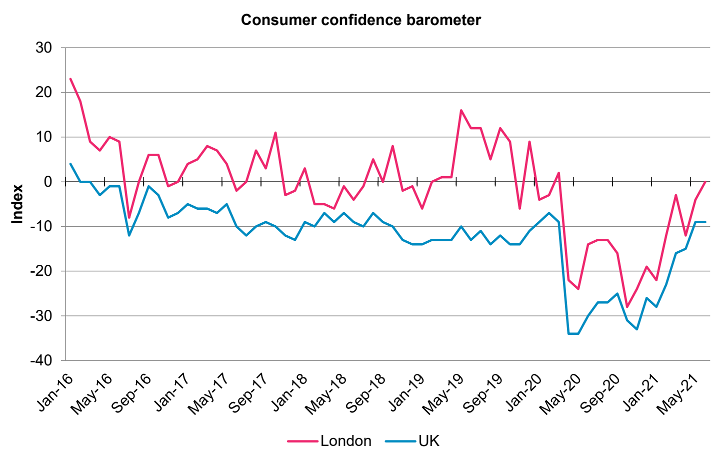
Source: Royal Institution of Chartered Surveyors
Latest release: July 2021, Next release: August 2021



Consumer confidence in London declined slightly in July

- In July, the consumer confidence index in London dropped to -1, from 0 in June.
- The sentiment for the UK was -7 in July unchanged from June. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: July 2021, Next release: August 2021



London's economic activity 1998-2019

By **Mike Hope,** Economist

In May 2021, the Office for National Statistics (ONS) published[1] estimates of output to local authority level by sector and updated the historic time series from 1998. It updates previous summaries of ONS output releases[2].

This month, the ONS also published[3] an updated time series of estimates of sub-regional productivity to local authority level. The measure of productivity used is output per hour. This supplement presents the main London findings from these two releases[4].

London's GVA rose to £468bn in 2019 from £448bn in 2018, growth of 2.4% (after inflation). The value of UK economic activity came to £1,977bn in 2019, growing by 1.4% over the previous year. For more than 20 years London has been growing faster than nationally, and so has been accounting for an ever larger share of national output. In 2019 London's economy was 23.7% of the size of the UK economy, rising from 21.5% in 2009 after the financial crisis, and 19.6% in 1998.

In 2019, four local authorities accounted for 45% of London's output: Westminster; City of London; Camden; and, Tower Hamlets (Figure A1). Outside inner London the local authorities with the largest output were Hounslow and Hillingdon, which serve Heathrow Airport.

1 ONS (2021), Regional economic activity by gross domestic product 1998-2019.

2 See, for example, Orellana E (2020), London's Economy Today - Issue 211 - March 2020, and Orellana E (2019), London's Economy Today - Issue 197 - January 2019.

3 ONS (2021), Subregional productivity in the UK.

4 This time the ONS published data for two measures of output, Gross Domestic Product (GDP) and Gross Value Added (GVA). GDP is the same as GVA except it includes taxes and deducts subsidies. This note focuses on GVA as this measure for which more granular information is available. The measure of GVA reported is GVA(B), balanced, which combines the income and production approaches to measuring output.

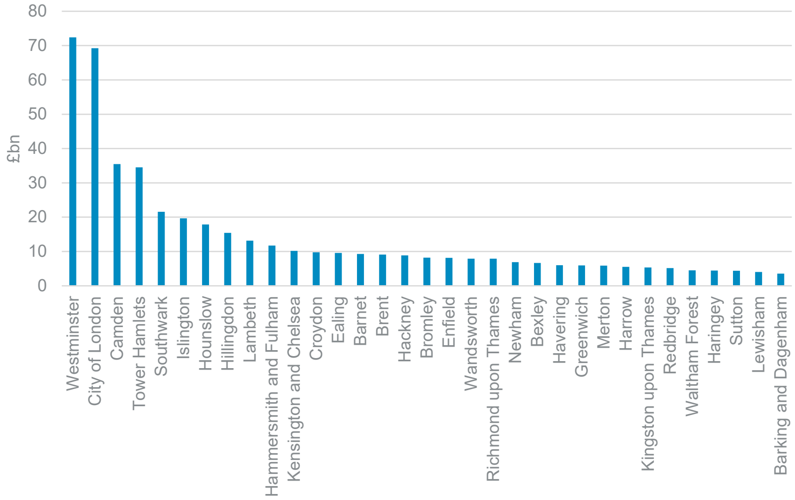


Figure A1: GVA(B) by London local authority, 2019

Source: ONS Regional Accounts

Over time London's output has become more concentrated. The share of the four largest local authorities by output was 38% in 1998 and 44% in 2009. That said, output has increased across all London local authorities since 1998 except Lewisham. The output of Lewisham has increased since 2009.

The London local authority with the highest productivity, Tower Hamlets, was more than twice as high as the authority with the lowest productivity, Lewisham. Higher output is associated with higher productivity across areas. The four local authorities with the highest output are among the five authorities with the highest productivity. The other authority is Hounslow, which services Heathrow Airport (Figure A2).

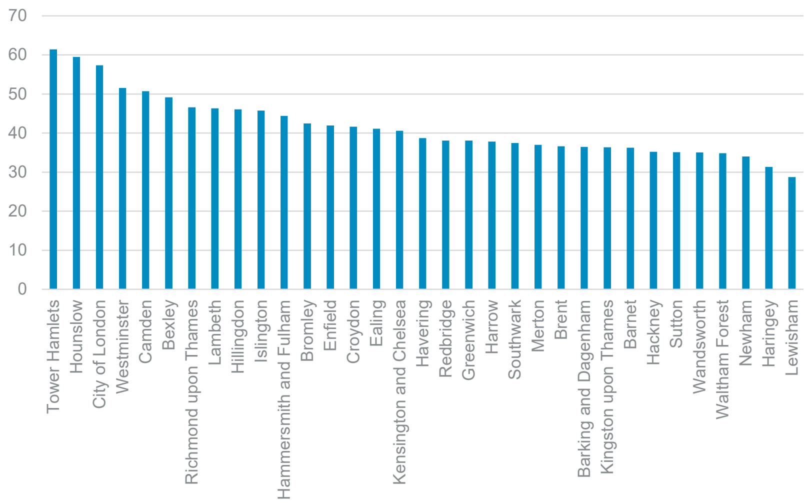


Figure A2: Productivity, GVA(B) per hour, by London local authority, 2019, £

Source: ONS sub-regional productivity estimates

At a sub-regional level, and to avoid the volatility of reporting for individual local authorities, it is clear that all parts of London do not grow at a similar rate, and that the pattern of growth can change over time (Table A1). For example, growth in Inner London – West, which includes Camden, the City of London, and Westminster, has been consistently higher than in London as a whole. In turn, growth in Inner London – East, which includes Tower Hamlets, has been consistently below the London average. In the period 1998-2009, growth was fastest in Outer London – West and North West, which includes Heathrow Airport, while since 2009 it has been close to the London average. While London in its entirety has been growing faster than the UK, this has not been the case for Outer London – East and North East, and Outer London – South.

Table A1: GVA compound annual growth rates, London and its sub-regions and the UK, various periods 1998-2019

	1998-2019	1998-2009	2009-2019
London	2.3%	2.4%	2.2%
UK	1.9%	2.0%	1.9%
Inner London – West	2.6%	2.6%	2.7%
Inner London – East	2.0%	2.1%	1.9%
Outer London – West and North West	2.6%	3.1%	2.0%
Outer London – East and North East	1.4%	1.5%	1.2%
Outer London – South	1.6%	1.4%	1.9%

Source: ONS Regional Accounts

Table A2 repeats Table A1 for productivity estimates. As with output London and UK productivity growth slowed after the financial crisis, and in London's case this has been to the same rate as for the UK. As with output growth productivity growth has been faster than the UK average in Inner London – West and Outer London – West and North West, and slower for other sub-regions. Productivity has fallen since the financial crisis in Outer London – South (Table A2).

Table A2: Productivity compound annual growth rates, London and its sub-regions and the UK, various periods 2004-2019

	2004-2019	2004-2009	2009-2019
London	0.8%	1.2%	0.6%
UK	0.6%	0.8%	0.6%
Inner London – West	1.0%	1.7%	0.7%
Inner London – East	0.6%	1.2%	0.4%
Outer London – West and North West	1.1%	0.2%	1.5%
Outer London – East and North East	0.1%	0.1%	0.2%
Outer London – South	0.6%	2.1%	-0.2%

Source: ONS sub-regional productivity estimates

London also specialises in four sectors, which accounted for over half (53%) of its output in 2019: Real estate; Finance; Professional services; and, Information and communication technologies (Figure A3). These are also the sectors in which London has notably specialised compared with the rest of the UK economy.

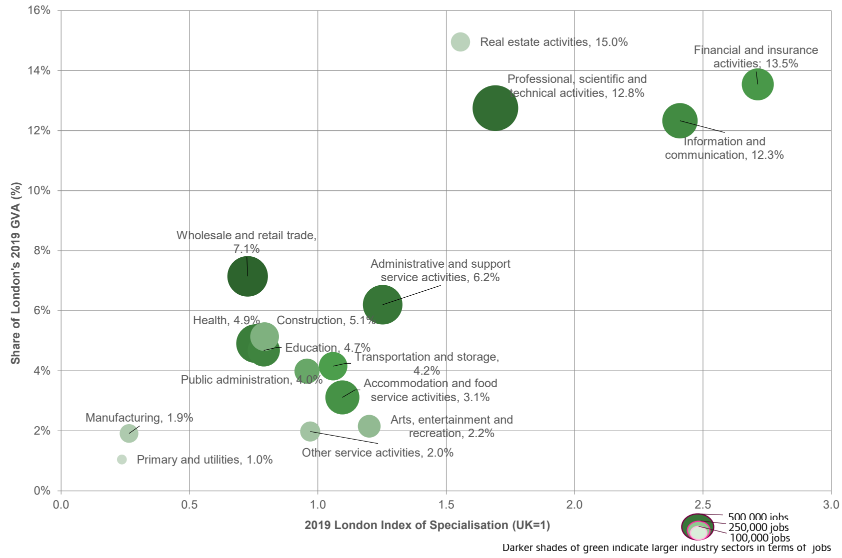


Figure A3: London's specialisation in GVA and jobs, 2019

Source: ONS Regional Accounts and Workforce Jobs

Note: the Index of Specialisation compares the relative sector share of jobs in the London economy with the UK economy. London specialises in those sectors with a score greater than 1

The London economy specialised in the same four sectors in 1998, which at this time contributed less than half of its output (47%) (Figure A4). Other sectors where London did not specialise were more prominent, such as: Wholesale and Retail, 11.7% of 1998 activity and 7.1% of 2019 activity; and, Manufacturing, 5.8% of 1998 activity and 1.9% of 2019 activity. So, the process of specialisation has seen more rapid growth in the sectors in which London was already specialised and a reduction in the relative role of other sectors.

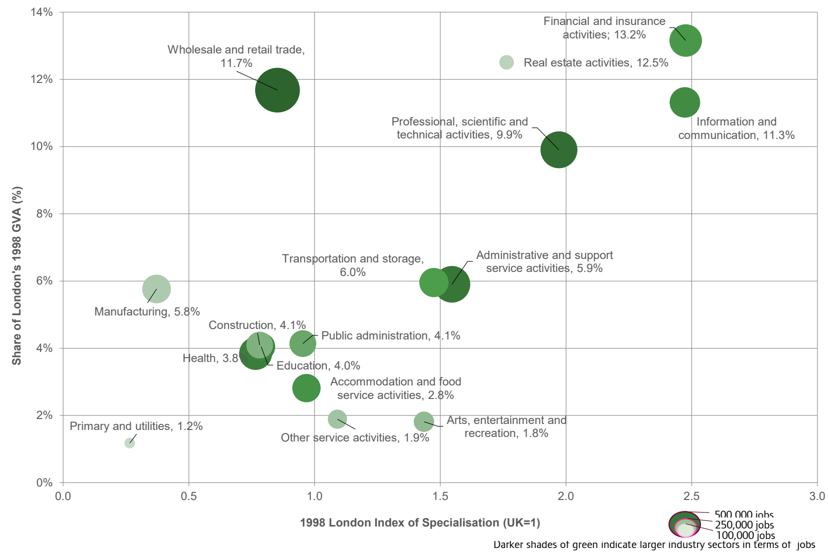


Figure A4: London's specialisation in GVA and jobs, 1998

Source: ONS Regional Accounts and Workforce Jobs

Note: the Index of Specialisation compares the relative sector share of jobs in the London economy with the UK economy. London specialises in those sectors with a score greater than 1

This period of specialisation may have reached its zenith, and a further process of re-structuring may now be occurring with the four principal sectors becoming less important to London's economy – although this is by no means certain. Their share of activity had been increasing both for London and inner London, although it has dipped for both geographies since 2015 (Figure A5). In comparison, in outer London the contribution of these sectors to economic activity was higher than the London average up to 2015 but has been falling since 2011.

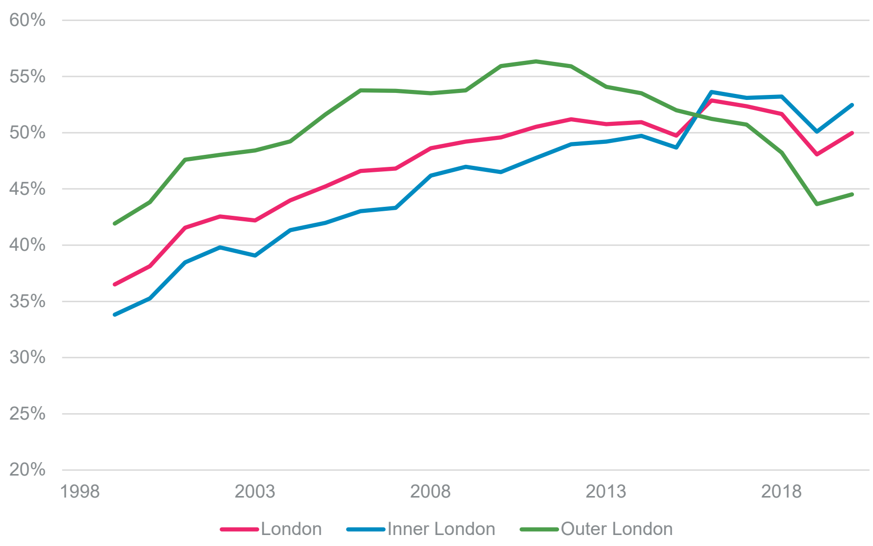


Figure A5: Share of output of the four principal sectors, Finance, Information and Communication, Professional services, and Real estate, within London and its sub-regions, 1998-2019

Source: ONS Regional Accounts

Inner London has retained its attractiveness to the four principal sectors as the share of total London output produced in Inner London has been rising for each of them (Figure A6). The growth for Professional services has been limited as over 80% of output was already produced in inner London in 1998. In contrast, the growth of inner London's share of London output has been more muted increasing from 67% in 1998 to 69% in 2019.

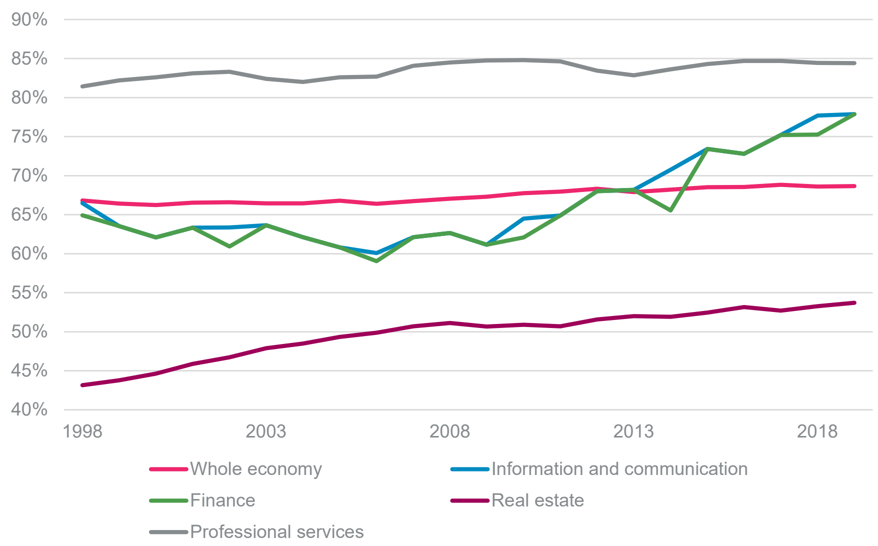


Figure A6: Share of sector output in inner London for Finance, Information and communication, Professional services, and Real estate activities, 1998-2019

Source: ONS Regional Accounts

In conclusion, London's share of national output has been rising for the past 20 years. Four of its local authorities, Westminster, City of London, Camden and Tower Hamlets, have been responsible for a growing share of London's output, and this is now over half of all output. They are amongst the areas with the highest productivity, and highest productivity growth, in London. The growth in output is associated with the importance of the Finance, Information and Communication, Professional services, and Real estate sectors to the London economy. While up to 2019 inner London continued to be attractive to these sectors, and as a place to work more widely, there is some evidence that these sectors may be becoming less important to London's economy overall. Although this is by no means certain, but if so a process of re-structuring may be starting.

If you found this overview of London's output interesting further analysis of London's economy can be found on our publications page.

Our latest publications

We publish regularly on the state of London's economy, providing the latest economic data for London and interpret how this may affect policy. This includes analysis of recent developments in London's economy and forecasts for the next couple of years.

We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

We analyse recent developments in London's labour market, by sector and borough.

View all the GLA Economics publications on our website.

The Evidence Base for London's Local Industrial Strategy - Final report
This is the final report on the evidence base that is informing and supporting the development of London's Local Industrial Strategy, following on from the interim report published in August 2019. It presents clear, robust and comprehensive evidence on London's economy with a view to supporting the overall objective of achieving inclusive growth in London. It reports on London's strengths, key constraints, issues and risks for the five foundations of productivity introduced by the Industrial Strategy White Paper (Business Environment, People, Infrastructure, Ideas and Place), while also highlighting the linkages between the economy of London and the rest of the UK.

Download the full publication.

Retail in London
This report provides an assessment of developments in the retail sector before the outbreak of COVID-19. The conclusion uses these findings to provide an assessment of some of the impacts of the spread of the virus on the sector.

The growth in ecommerce has been impacting adversely on the number of comparison shops since 2015. Despite this the number of retail shops in London rose in 2019.

Download the full publication.

London's Economic Outlook: Spring 2021
GLA Economics' 38th London forecast isuggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 5.4% this year due to the recovery from the COVID-19 crisis. This growth rate is expected to increase slightly to 6.9% in 2022 before moderating to 3.1% in 2023.

Download the full publication.

GLAECONOMICS

City Hall
The Queen's Walk
London SE1 2AA

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

July 2021

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

London's Economy Today is published towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

Images

Subscribe
Subscribe online at https://www.london.gov.uk/what-we-do/research-and-analysis/join-our-mailing-list-research-and-analysis

Disclaimer
GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data.

GLA Economics, Transport for London and the Greater London Authority will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this publication.

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

MAYOR OF LONDON