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War in Ukraine stokes higher inflation

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Across the last month, the news has been dominated by the human tragedy of the war in Ukraine. As the UK joins other international allies in sanctioning Russian firms, banks and individuals, this crisis will also have a ripple effect on the global economy. Russia is the world's second-largest producer of oil and natural gas, while Ukraine and Russia together make up around a quarter of the world's wheat exports. Both the conflict itself and the resulting sanctions have therefore stoked concerns about shortages in key commodity markets, pushing up prices at a time when inflation is already at its highest since 1992.

The Office for National Statistics (ONS) released data this week showing Consumer Price Index (CPI) inflation reaching a fresh 30-year high of 6.2% year-on-year, up from 5.5% in January. This once again beat consensus forecasts, and the cost of running a vehicle and energy bills were again the largest contributors to inflation. A further sharp acceleration in price pressures is likely to come in April when the Ofgem standard tariff for gas bills rises by over 50%. Yet the Office for Budget Responsibility (OBR) does not expect inflation to peak until late in 2022 when Ofgem raises the price cap again in October, based on wholesale gas prices between March and August. Those prices surged following Russia's invasion of Ukraine, more than doubling across the first week of the war. While prices have mostly unwound that surge, gas

Also in this issue

Datastore

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

remains more expensive on UK wholesale markets than in January and futures contracts suggest that those prices could rise across the rest of 2022.

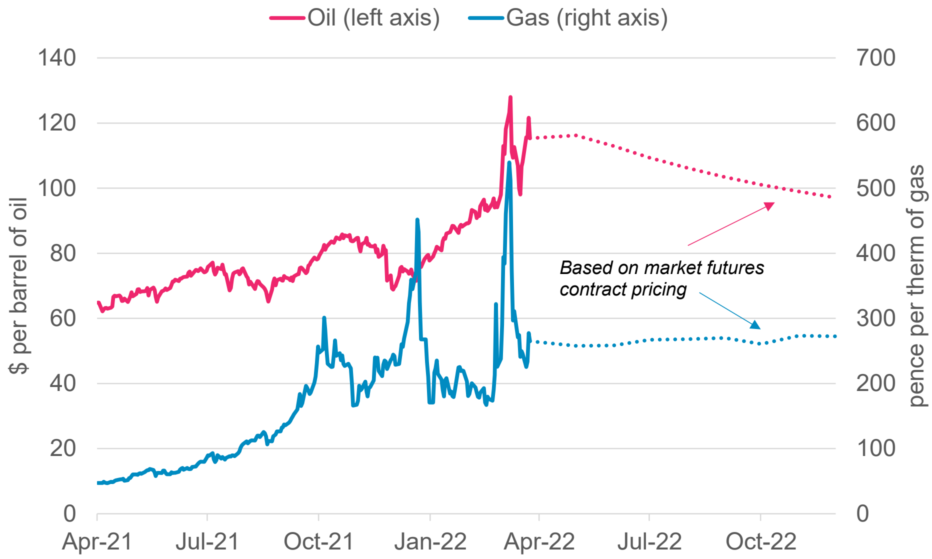


Figure 1: Global gas and oil prices spiked following Russia's invasion of Ukraine

Source: MarketWatch

Data from the National Institute of Economic and Social Research (NIESR) suggest that London is facing the highest underlying inflation pressure of any region in the UK, with a CPI growth rate trimmed of volatile items of 6.1% year-on-year versus the national average of 5.1%. There are some mitigating factors for Londoners against key price pressures. Households in the capital use public transport much more than in any other region, partly insulating them from the impact of higher petrol prices. London properties tend to have the best record of energy efficiency, at least as measured by new energy performance certificates – partly because a larger share of London's housing stock comes in the form of easier-to-heat flats. However, London also has the third-highest share of energy customers on pre-paid meters of any UK region, which may leave the worst-off households forced to self-ration their energy if they run low on income later in the month. Londoners tend to devote a similar share of their spending to food as in the rest of the UK, meaning they have no more insulation from rising grain prices than anywhere else in the country. National figures also demonstrate that low-income households tend to devote more of their spending to energy and food than high-income households, meaning this crisis is likely to further raise London's already-sharp income inequality.

Bank of England caught between conflicting risks as it raises interest rates a third time

At its March meeting, the Bank of England's Monetary Policy Committee (MPC) raised the interest rate from 0.5% to 0.75%. The three hikes between last December and this month represent the fastest monetary tightening in nearly 25 years. Yet despite choosing rapid action to combat rising inflation, which policymakers expect to reach nearly 10% by the end of the year, the MPC sounded a cautious note about the risks facing the wider economic recovery.

With commodity prices up and the squeeze on real income tightening, the "impact on real aggregate income is now likely to be materially larger than implied by the projections in the February Report, consistent with a weaker outlook for growth and employment". The MPC also softened its wording around further policy tightening. In February, policymakers said that further rate hikes would be "likely", but in March they offered a much more qualified suggestion: "the Committee judges that some further modest tightening in monetary policy **may** be appropriate in the coming months, but there are risks on both sides of that judgement" [emphasis added]. One member of the MPC (Jon Cunliffe) even voted to keep the policy rate at 0.5%.

London has seen the slowest recovery in unemployment from the pandemic out of any region of the UK, and real median payroll earnings in the capital started to trend down earlier than in the rest of the country. As a result, the growing concerns around incomes and employment coming from the Bank make for particularly sobering reading for Londoners. The pandemic wage recovery has tended to sharpen sectoral inequalities in the capital, with earnings growth since 2020 focused in already high-paid service sectors. Sectors like Hospitality and Construction have seen aggregate pay stagnate or even fall in real terms. Clearly, Londoners are increasingly concerned about the impact of inflation on their ability to spend, and in YouGov polling commissioned by the GLA in January, 45% of those surveyed said they would spend less on non-essentials, but as many as 21% already said they would buy less in food and essentials.

Chancellor delivers the Spring Statement

The Chancellor of the Exchequer, Rishi Sunak, delivered his Spring Statement on 23 March. Some of the measures announced include:

- A 5p per litre reduction in fuel duty for petrol and diesel
- The annual National Insurance primary threshold will rise from £9,880 to £12,570 from July, and will be at the same level as the income tax threshold
- A doubling of the Household Support Fund for low income households to around £1 billion. It is estimated that London councils will receive around £68 million (or 16.1%) of the additional £421 million on offer to English councils.
- A reduction in VAT on energy saving materials such as solar panels, heating pumps and roof insulation

Government measures, announced in February and at the Spring Statement, broadly offset around half of the increase in household bills from the increase in the energy cap in April and October according to the OBR. Taking account of both energy and non-energy pressures, the policy measures announced since October offset a third of the overall fall in living standards that would otherwise have occurred in the coming 12 months. Consumption is likely to be given some support in the near term by a further drawdown of savings built up during the pandemic. Despite this support real household disposable incomes per person may fall by 2.2% in 2022-23, says the OBR, the largest fall in a single financial year since Office for National Statistics (ONS) records began in 1956-57.

While the Chancellor reduced taxes in the Spring Statement, taxes as a proportion of GDP are now expected to be higher over the years to 2026-27 than in October at the time of the Budget. The OBR estimates the tax take to reach over 36% of GDP in 2026-27. This is because the previously announced tax measures such as the freezing of personal allowances in income tax, and the introduction of the health and social care levy through National Insurance contributions will raise more money because of higher than predicted inflation.

Public sector net borrowing in 2022-23 in the latest OBR forecast is, though, £16.1 billion higher than in the October forecast at £99.1 billion (3.9% of GDP). The spike in inflation – both directly via debt interest and indirectly via policies put in place to help households cope with higher prices – outweighs the £30.1 billion upward revision to the forecast from higher than expected income and corporation tax. Debt interest spending jumps to a nominal record high of £83.0 billion, double that of the October forecast and its highest level as a share of revenue since 1997-98.

Across the forecast cumulative borrowing is lower, and so public sector net debt (including the Bank of England) peaks as a share of GDP in 2021-22, before falling to 83.1% of GDP by 2026-27. While debt has been revised down, the higher path for RPI inflation in the near term and for interest rates throughout the forecast have raised the cost of servicing the debt.

The severe effects of Russia's invasion of Ukraine on the global economy

The Organisation for Economic Co-operation and Development (OECD) published a preliminary assessment of the global economic impact of Russia's invasion of Ukraine. It is a severe economic shock of uncertain duration and magnitude, added to the shocks of the global financial crisis and the pandemic over the last 15 years. Prior to the invasion, global growth was projected to return to rates similar to those prevailing in the pre-pandemic period. Although Russia and Ukraine account for around 2% of world output at market prices, and a similar proportion of total global trade, they are large producers of key food items, energy and minerals – they account for about 30% of global exports of wheat, 20% for corn, mineral fertilisers and natural gas, and 11% for oil. The moves in commodity prices and financial markets seen since the outbreak of the war could, if sustained, reduce global GDP by over 1 percentage point in the first year, and push up global consumer price inflation by approximately 2½ percentage points. The impact on GDP in the Eurozone would be larger at 1.4 percentage points, due to its relatively greater dependency on Russian gas and oil, and for the US it would be around 0.9 percentage points.

An earlier publication by the National Institute of Economic and Social Research (NIESR), using the same economic model as the OECD, concluded that the UK economy would be 0.8 percentage points smaller. The OBR notes that compared to other European countries the UK economy is less energy intensive. This is partly due to the relatively large share of services in UK output. However, 76% of the UK's gross energy consumption comes from gas and oil compared with a European average of 57%. So, as a net energy importer with a high dependence on gas and oil, higher global energy prices will still weigh heavily on the UK economy.

The OBR downgrades its UK growth forecast

As noted the OBR published its latest UK forecast on 23 March, alongside the Spring Statement. Output growth in 2021 is now expected to have been 7.5%, 1.0 percentage points higher than the OBR's October 2021 forecast. However, the GDP forecast for the present year has reduced from 6.0% to 3.8%. This is because, "the large fall in real disposable income weighs on household consumption and real GDP", and so is only partially attributable to the Russia-Ukraine conflict. Thereafter, GDP growth will pick up to 1.8% in 2023 as the effect of the fiscal expansion reaches its peak, before settling at an average of 1.9% between 2024 and 2026 (Figure 2). The level of real GDP from 2025 is unchanged from the October forecast as the assumption that the pandemic has led to economic scarring of 2% of GDP has been maintained.

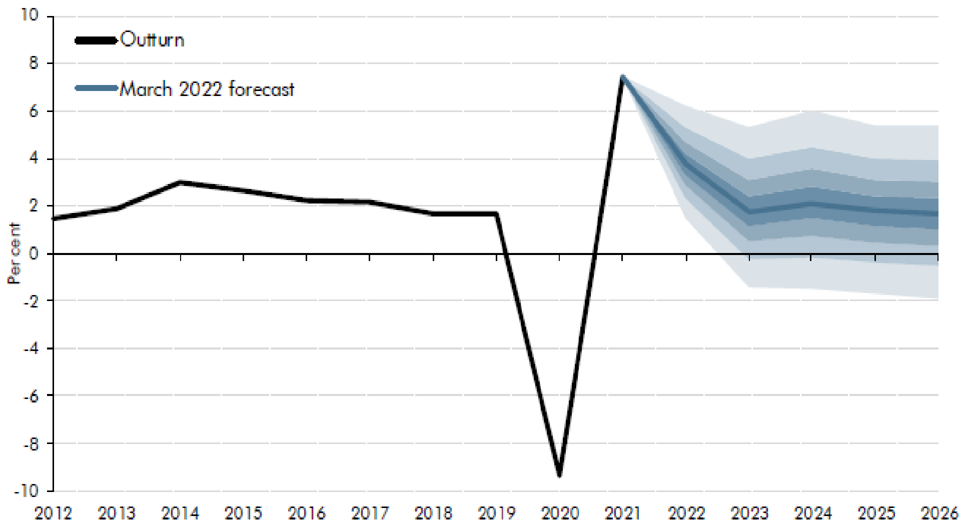


Figure 2: UK GDP growth rates 2012-2026

Source: ONS, OBR

COVID-19 cases are rising again

In the week to 24 March there were 8,611 reported cases of COVID-19 in London. This compares with 3,832 cases three weeks earlier. These numbers remain relatively low compared with the most recent wave of the virus, but if they continue to rise at the same pace it will be of a similar magnitude to at least the wave in December 2020. There will be impacts for the economy from increased sickness absence and insufficient NHS capacity to process the backlog of treatments. The OBR notes that "further Omicron outbreaks and shutdowns in China present a risk to the outlook" of the global economy from supply chain bottlenecks.

The economy has learnt to adapt to the virus through changes in working practices, such as increased home working, and changes in spending patterns in a shift to goods from services. Increased immunity to the virus, the availability of vaccines and better treatments have also enabled society to respond with fewer restrictions. The latest UK monthly GDP figures indicate that the economy has suffered less impact with each wave of the virus despite the number of cases being markedly higher (Figure 3). The UK economy contracted by -0.2% in December, before rebounding by 0.8% in January, and in so doing exceeded the pre-pandemic level of output.

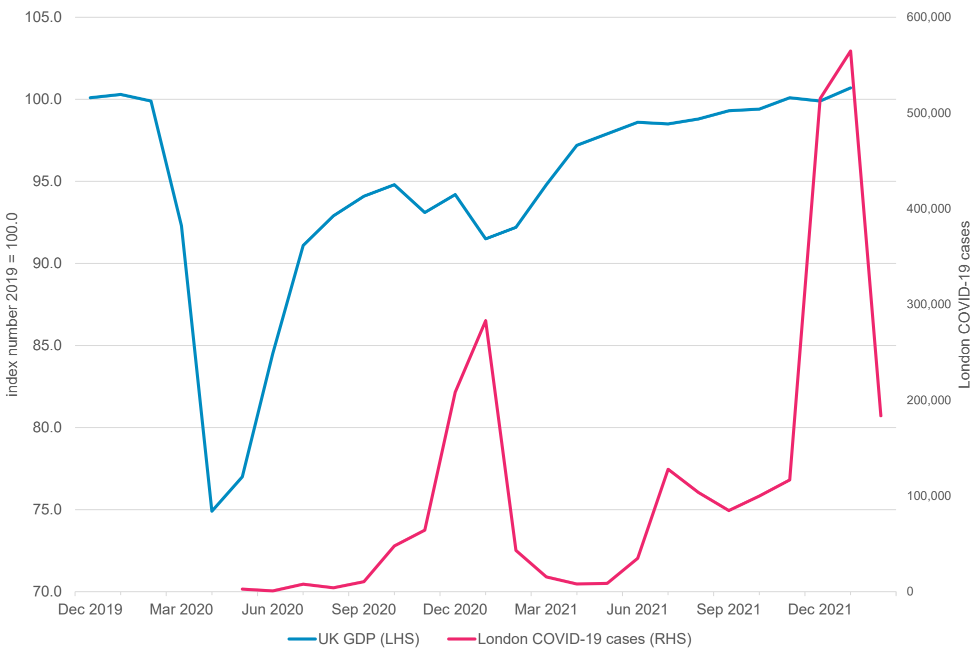


Figure 3: UK GDP growth and London COVID-19 cases, December 2019 – February 2022

Source: ONS and UK Coronavirus Dashboard

Substantial downside risks remain - forecasts are assuming that there will not be a further adverse economic shock from COVID-19. A particular concern is the emergence of a vaccine resistant variant, and declining immunity over time to the vaccine. The OBR has modelled a scenario of a variant as contagious as Omicron, but that causes more severe illness and requires existing vaccines to be adapted, then manufactured and rolled out. Under certain assumptions GDP falls 3.5% in Q1 2023, then recovers from Q2 as infections fall and the vaccine is rolled out. A second wave of infections then causes GDP to fall by 1.8% in Q1 2024.

Mixed picture emerging for London

The S&P Global/CIPS Flash UK Composite PMI for March reports that, "Faster service sector growth boosts UK economy in March … and business optimism slumps to 17-month low". The headline index registered 59.7 in March, down slightly from February's eight-month high of 59.9. A stronger contribution from service sector activity (index at 61.0, up from 60.5) helped to offset weaker manufacturing sector growth (52.6 in March, down from 56.9). The service sector is less likely to be affected by energy price rises, to the benefit of London as 90% of economic activity is in services. One other concern is the exposure of London's financial markets to Russian assets. It is thought this is relatively limited, as Russia reduced its overseas investments after the annexation of Crimea in 2014.

The LET supplement sets out the latest GLA Economics macroeconomic forecasts for London. These were published last month days after the invasion of Ukraine, with a preliminary view of its effects on London's economy. In the central scenario these estimate London's growth at 4.1% in 2022, and 3.1% in 2023. There is a broad range of uncertainty around these estimates with scenarios providing a range for growth of between 1.4% and 6.2% for 2022.

In contrast to a possible relatively positive outlook for growth, weekday (Monday – Thursday) daytime footfall in London has recovered the most slowly of the UK's large cities. The Centre for Cities reports that in February large cities, which are those that so far have struggled the most to get workers back, were approaching near full recovery at 90% of pre-pandemic weekday footfall. For London, footfall was at 57% of the pre-pandemic figure, although this is up from 44% in January, an unprecedented rise.

And, prior to the increase in National Insurance and energy prices in April, consumer confidence in London dipped to -13 in March from -3. This continues to remain ahead of UK sentiment which was -31 in March. More details are available in the LET indicators below.

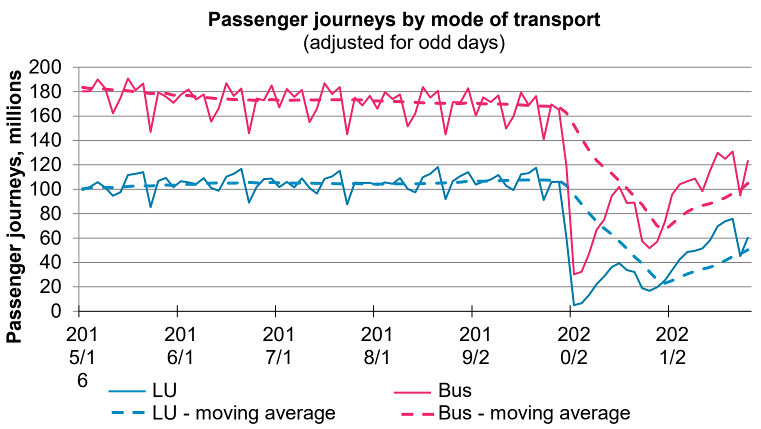
GLA Economics will continue to monitor these issues over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

Passenger journeys on London public transport increased after the lifting of Omicron-related restrictions

- 183.4 million passenger journeys were registered between 9 January 2022 and 5 February 2022, 43.2 million journeys more than in the previous period (12 December 2021 – 8 January 2022).
- In the latest period, 60.2 million of all journeys were underground journeys and 123.1 million were bus journeys. Numbers on both journey types increased.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 146.2 in the previous period to 155.1 in the latest period.

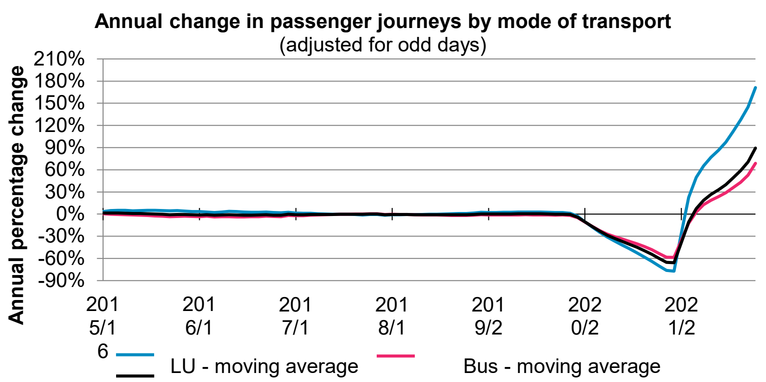
Source: Transport for London
Latest release: March 2022, Next release: April 2022



Passenger journeys continue to recover on an annual basis

- The 13-period moving average annual growth rate in the total number of passenger journeys was 89.3% in the period 9 January 2022 to 5 February 2022, up from 70.6% in the previous period 12 December to 8 January.
- The moving average annual growth rate of bus journeys increased from 52.7% to 68.7% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 144.7% to 171.2% between those periods.

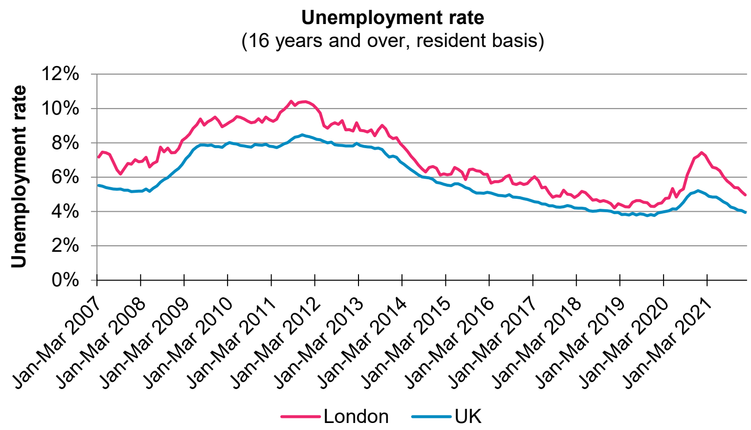
Source: Transport for London
Latest release: March 2022, Next release: April 2022



London's unemployment rate fell to 5.0% in the quarter to January 2022

- Around 251,000 residents 16 years and over were unemployed in London in November – January 2022.
- The unemployment rate in London was 5.0% in that period, down from 5.4% in the previous quarter, August–October 2021.
- The UK's unemployment rate also decreased, from 4.2% in August – October to 3.9% in November – January 2022.

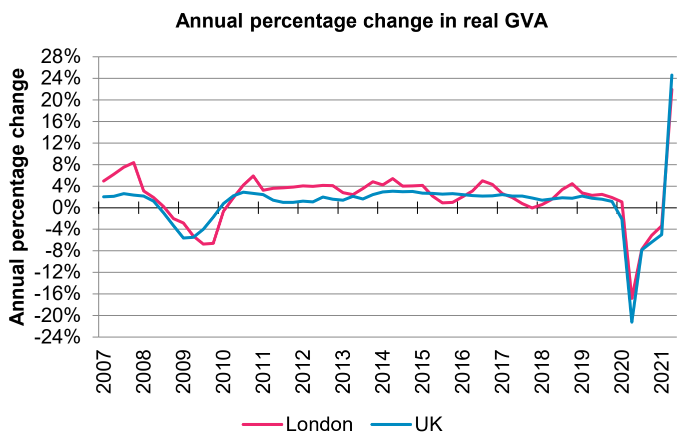
Source: ONS Labour Force Survey
Latest release: March 2022, Next release: April 2022



London's economy is estimated to have grown by 21.9% in the year to Q1 2022

- London's real GVA expanded by 4.5% in Q2 2021 - compared with Q1 2021 - after shrinking slightly by 0.1% in the previous quarter. London's real GVA in Q2 2021 remained 0.9% below its pre-crisis level in Q4 2019.
- The UK's real GDP quarterly growth rate for Q2 2021 was 5.6% after falling by 1.2% in the previous quarter. Overall UK GDP in Q2 remained 2.3% below its pre-crisis level in Q4 2019.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so should be more robust.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012 have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

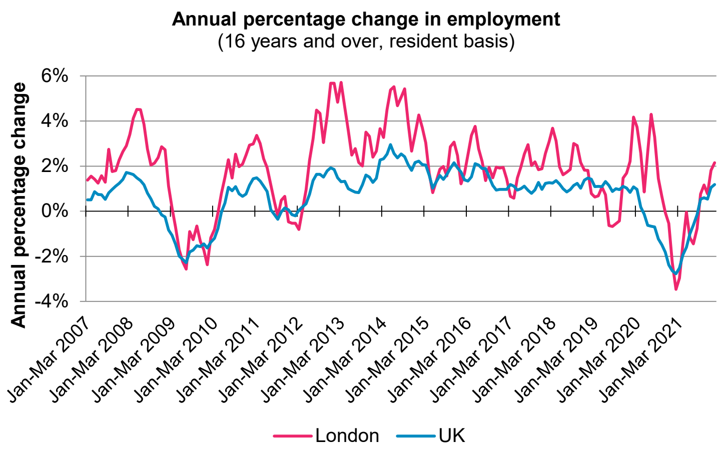
Source: ONS and GLA Economics calculations
Latest release: February 2022, Next release: June 2022



London's year-on-year employment growth rate was 2.1% in the quarter to January 2022

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of November – January 2022.
- The rate of employment growth in the capital was 2.1% in the year to this quarter, compared with 1.2% in the previous quarter to October 2021.
- The change in the UK's employment annual growth rate was 1.2% in the most recent quarter, and 0.6% in the previous quarter.

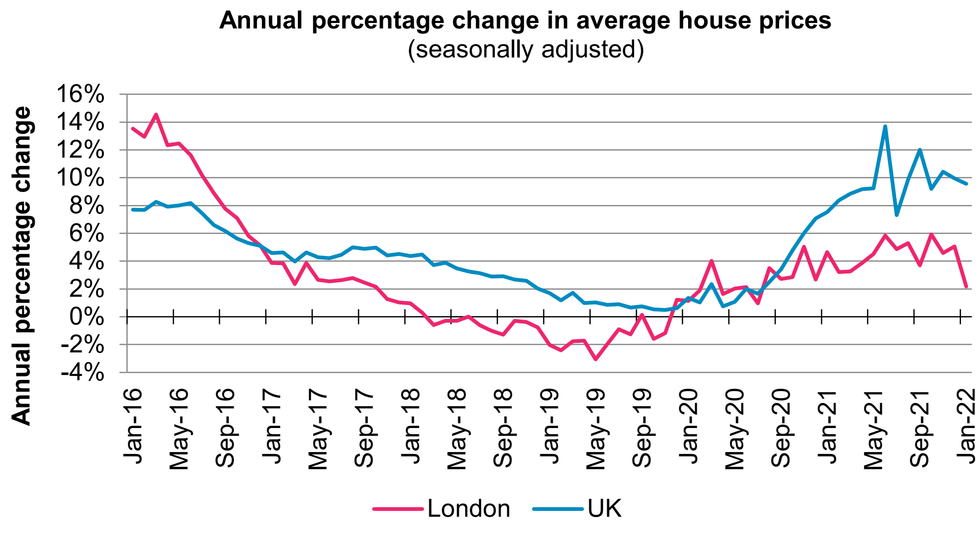
Source: ONS Labour Force Survey
Latest release: March 2022, Next release: April 2022



House prices growth in London remained positive in January

- In January 2022, the average house price in London was £508,000 while for the UK it was £272,000.
- Average house prices in London rose by 2.2% in annual terms in January, less than the December rate of 5.1%
- Average house prices in the UK rose by 9.6% in annual terms in January, close to the December rate of 10.0%.

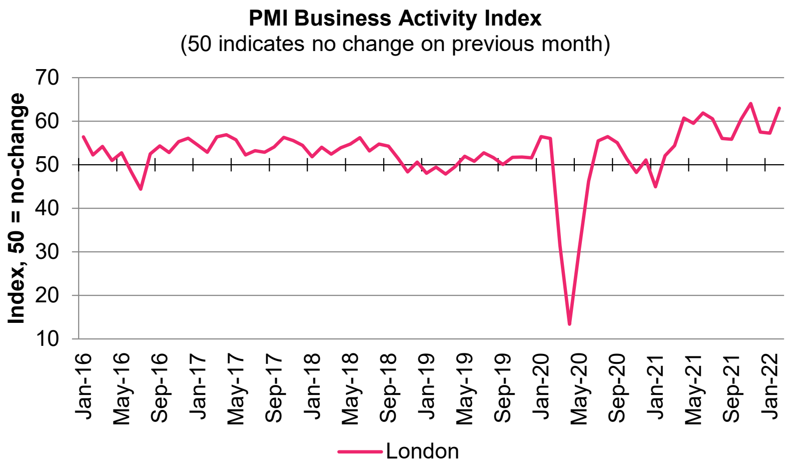
Source: Land Registry and ONS
Latest release: March 2022, Next release: April 2022



In February, the sentiment of London's PMI business activity index remained strongly positive

- The business activity PMI index for London private firms increased from 57.3 in January to 63.0 in February.
- 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.

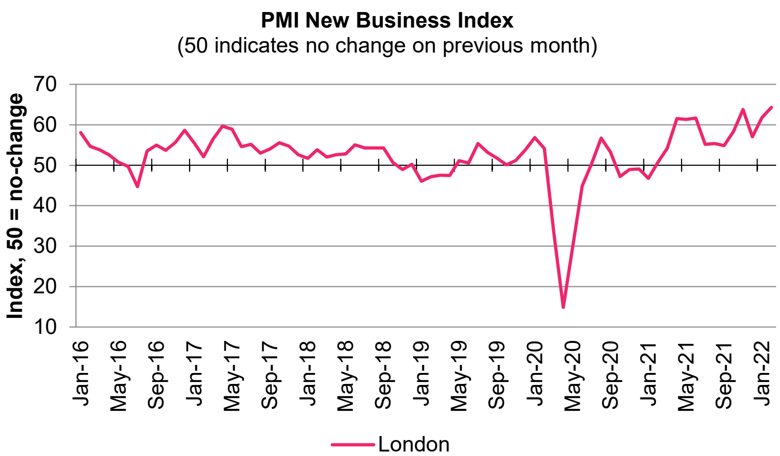
Source: IHS Markit for NatWest
Latest release: March 2022, Next release: April 2022



In February, the sentiment of London's PMI new business activity index remained strongly positive

- The PMI new business index in London increased from 61.8 in January to 64.3 in February.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

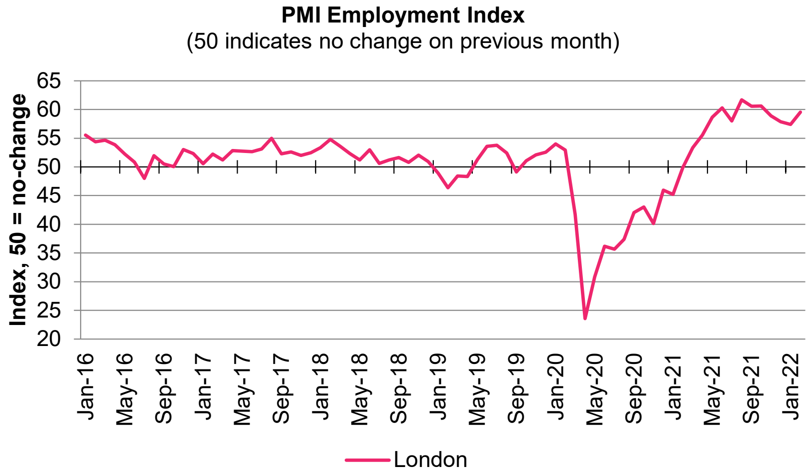
Source: IHS Markit for NatWest
Latest release: March 2022, Next release: April 2022



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

- The Employment Index for London increased slightly from 57.4 in January to 59.6 in February. The index is near its highest level since records began in 1997.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

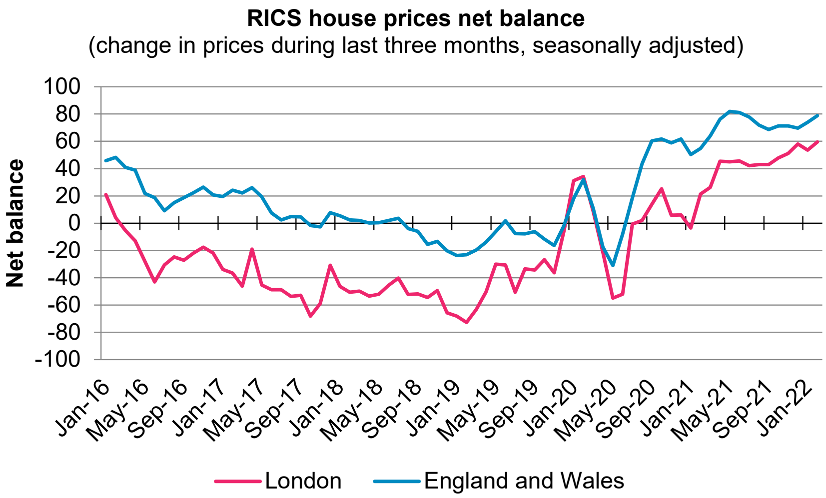
Source: IHS Markit for NatWest
Latest release: March 2022, Next release: April 2022



The net balance of property surveyors continued to report an increase in house prices in London in February

- In February, the net balance of property surveyors in London reporting a rise in house prices was 60, and in January 54.
- For England and Wales, the RICS house prices net balance index also increased slightly from 74 in January to 79 in February.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

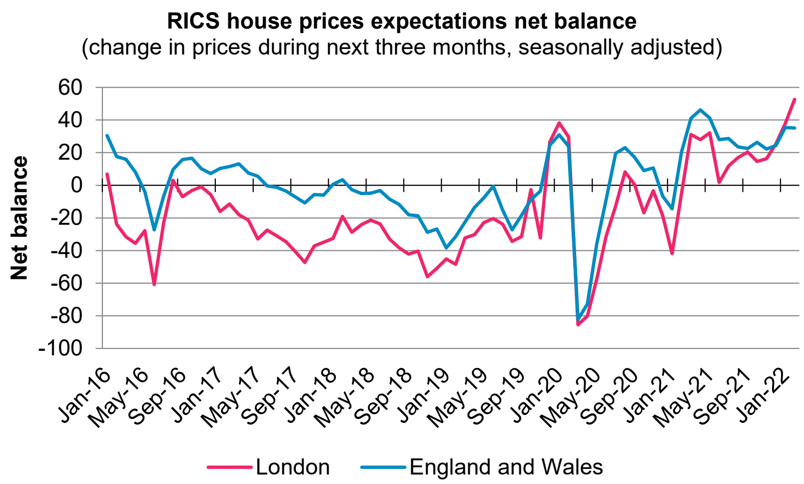
Source: Royal Institution of Chartered Surveyors
Latest release: March 2022, Next release: April 2022



In February, expectations for house prices for the next three months remained positive and improved according to surveyors

- The net balance of house prices expectations in London was 53 in February, somewhat higher than the balance of 38 in January.
- Sentiment in England and Wales was 35 in February, the same level as in January.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

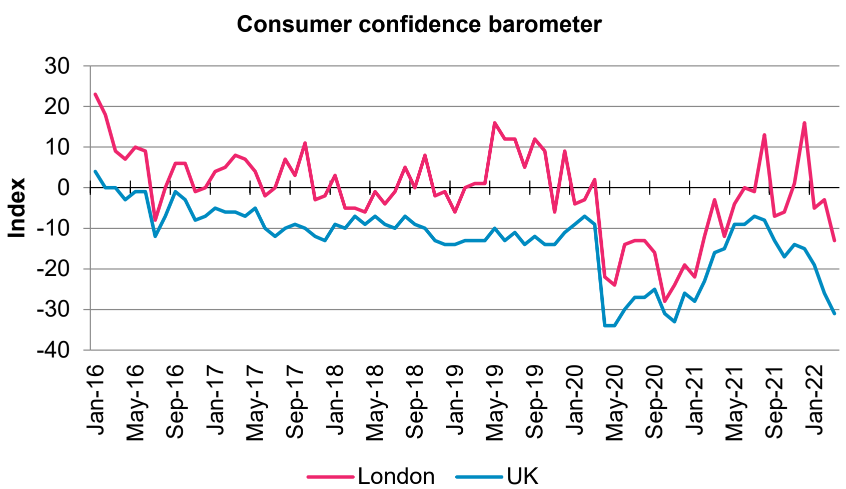
Source: Royal Institution of Chartered Surveyors
Latest release: March 2022, Next release: April 2022



Consumer confidence in London went further negative in March

- In March, the consumer confidence index in London decreased to -13 from -3 in February.
- The sentiment for the UK decreased from -26 in February to -31 in March. 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: March 2022, Next release: April 2022



COVID-19: London macroeconomic scenarios (February 2022 update)

James Watson, Economist

GLA Economics published its latest macroeconomic scenarios-based forecast for London at the end of February. These scenarios have formed part of wider work on the impact of the COVID-19 pandemic on London's economy, and they have been informed by expert consultation and existing literature on pandemics and macroeconomic scenarios[1]. The two main outcome variables are real Gross Value Added (GVA) – a measure of London's output – and workforce jobs (WFJ) – a measure of employment. We project both variables over the medium term (to the end of 2024) and we also project GVA over the longer term (to 2031).

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

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

These scenarios are not definite predictions about the only possible paths for the economy, nor do they represent optimal policy responses. Instead, they rely on judgements around several key assumptions, including the effectiveness of the public health response to the pandemic, and the impact of economic support measures[2]. The scenarios also do not capture the full range of uncertainty about the future, which is likely to be much wider.

1 See the list of GLA summaries on external research on COVID-19, which have frequently included summaries of macroeconomic scenarios and forecasts publications.
2 For more detail on these assumptions see slides 8 to 11.

Within this framework, we can set out the narrative and key results of the main scenarios. Scenario 2 is our baseline, involving a gradual return to economic growth. While this scenario incorporates the pace of last year's rapid recovery following positive economic data, it is much less optimistic about the progress of the recovery from this year onwards. This is due to higher than expected inflation squeezing real household incomes, creating a drag on consumer demand. The negative effects of higher inflation, which is likely to rise further as a result of the war in Ukraine, more than outweigh the positive news of a more modest than expected impact from 'Plan B' restrictions to contain the Omicron variant.

These scenarios were published in the week following Russia's invasion of Ukraine. There is significant uncertainty around the impact of the war. Assuming conflict does not escalate beyond Ukraine, the main direct impact on London is likely to be through higher energy prices due to concerns over Russian oil and gas supply. However, uncertainty around the scale of this effect and other potential impacts from sanctions sharpen the downside risk to the outlook. We expect rising inflation and tax changes announced last year to hit household incomes, restraining the consumer recovery, and as concerns over Russian energy supplies keep imported costs high, this will contribute to a bumpy path for activity in H1 2022.

Scenario 1, a plausible upside, involves a faster economic recovery. In this scenario, we assume that deaths from COVID-19 rapidly fall to levels similar to endemic diseases like flu as vaccines reduce the pool of individuals susceptible to severe infections and antiviral treatments become increasingly effective. We also assume that strong labour demand means tightening macro policy does not dampen the employment recovery, allowing consumers to release more of their stock of excess savings from the pandemic. The boost to demand raises output and employment, prompting stronger business investment and eliminating the medium-term output scarring in our baseline.

Scenario 3, a plausible downside, assumes that the combination of a new and virulent strain of COVID-19 with higher inflation and tightening macro policy lead the recovery to go briefly into reverse in mid-to-late 2022. Renewed social distancing and squeezed incomes would dent consumer and business sentiment, with increased risk keeping savings elevated, resulting in no release of pent-up demand. A fresh downturn and slow medium-term growth mean there is significant economic scarring, some of which persists in the long term, as firms close and workers lose their jobs (Figures A1 and A2).

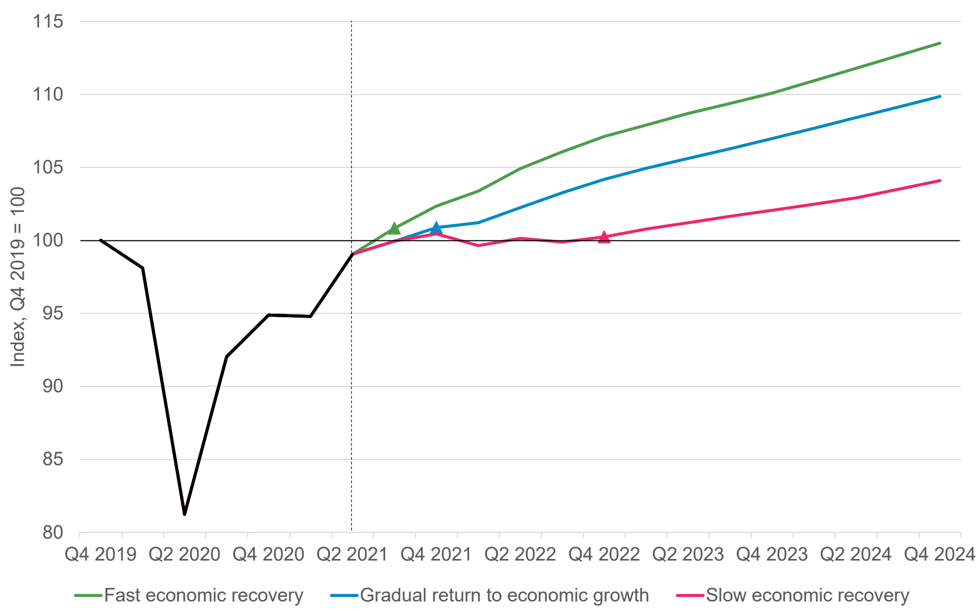


Figure A1: Shape of the output recovery in London (index)

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

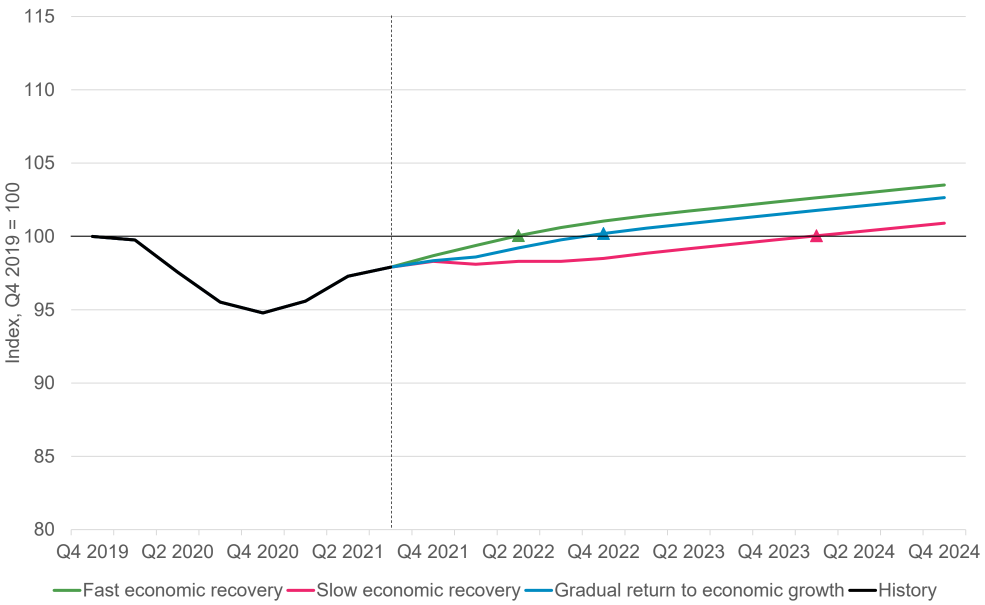


Figure A2: Shape of the jobs recovery in London (index)

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

Overall, while the medium-term paths for output and employment are mostly higher now than expected at the peak of the crisis, the balance of risks remains clearly skewed to the downside. The downside potential for London's economy is significant, with GVA in the slow recovery scenario ending 2024 over 5% below the baseline, while the upside ends 2023 just over 3% above the baseline. The breadth of the gap between scenarios also demonstrates that uncertainty remains very high around economic conditions. As a result, while our baseline remains reasonably optimistic about the progress of the recovery, the broader picture of our scenarios for London's economy is more cautious.

The main results are presented below:

Headline recovery in the medium term (2021 to 2023)

- Under the **gradual return to economic growth scenario**, our baseline, **London's real GVA is expected to grow by 4.1% this year**. This is a firm pace of growth, but lower than December's 5% forecast, and sharply down from 2021's projected growth of 7.8%. **The recovery will continue next year, though at a more moderate pace (3.1%), before easing further in 2024 (2.7%)** (Figure A3).
- **Real GVA is expected to reach its pre-crisis level in Q4 2021** in the baseline scenario (Figure A1) while WFJs only reach pre-crisis levels in Q4 2022 (Figure A2).
- Jobs will take longer to feel the impact of the recovery. After ticking up 0.4% last year, **employment is set to see moderate growth this year (2.2%) and in 2023 (1.6%) before slowing further in 2024 (1.2%)** (Figure A4).
- **Under the fast economic recovery scenario, output growth would stay stronger for longer**. In this scenario, output would rise 6.2% this year, before easing closer to long-term averages at 3.5% growth in 2023 and 2.9% in 2024. **Employment would also see a much firmer rebound this year**, with growth of 3%, followed by a convergence to baseline growth rates from next year.
- Meanwhile **in the slow economic recovery scenario, the output recovery largely ends this year.** GVA would grow just 1.4% in 2022 and 2023, before converging towards long-term levels at 1.8% in 2024. **Jobs growth also slows to its medium-term pace almost immediately**, with growth of 1.1% in 2022, 1.0% in 2023 and 1.2% in 2024. **These profiles do not return to pre-pandemic trends over the forecast horizon**.

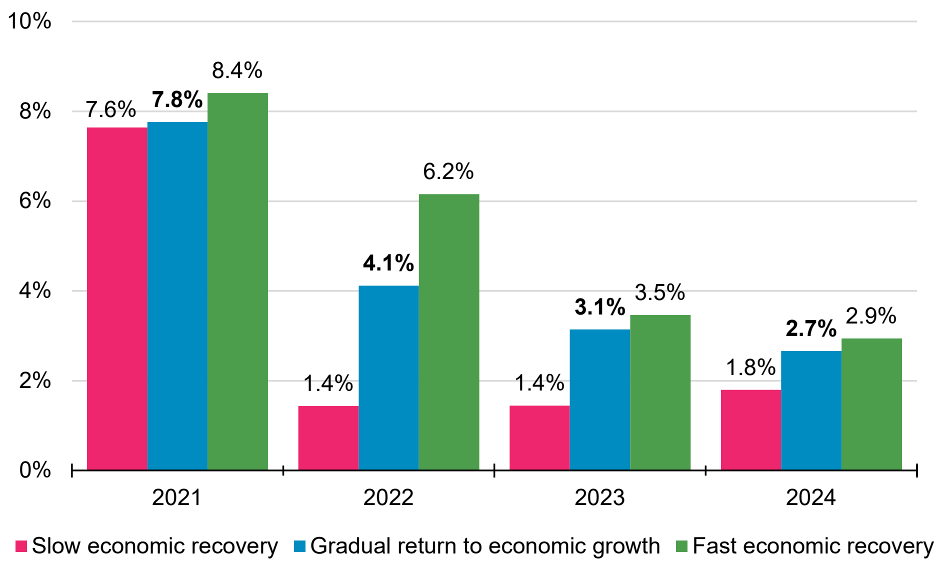


Figure A3: Medium-term real GVA projections, annual growth rates

Source: GLA Economics

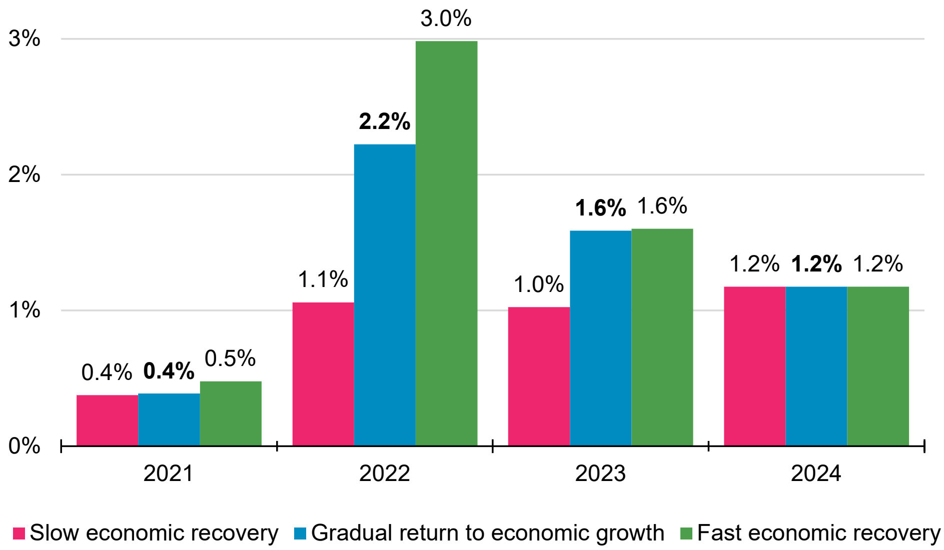


Figure A4: Medium-term workforce jobs projections, annual growth rates

Source: GLA Economics

- **GLA Economics projections have tended to become more optimistic** for output and jobs over successive iterations of our forecasts/scenarios. **But the improvements are becoming smaller,** especially in the later years of the forecast.

Sectoral output recoveries in the medium term (2021 to 2023)

- **London's economic recovery is set to vary widely across industries** (Table A1).
- While we expect firm output growth in 2022 and 2023 in much of the economy, the **sectors most affected by the pandemic will see output remain below 2019 levels**.
- Examples include **Arts and entertainment**, where output in 2022 will still be nearly 15% below 2019 levels, despite growing a total 28% over two years. **Transportation and storage** and **Accommodation and food services** will also lag 2019 output in 2022 despite solid growth, while **Construction** also faces an incomplete recovery.
- **Other sectors are seeing firm growth despite reaching pre-pandemic output levels last year**. This includes sectors that may have adapted faster to home working, such as **Information and communication**, **Financial services** or **Professional services**. It also includes sectors that gain from the shift of consumer demand from services to goods during the pandemic, such as **Manufacturing**.
- While **Wholesale and retail trade** will see output remain well above pre-pandemic levels, high inflation will prompt a contraction in the sector this year.

Real GVA	% diff from 2019		Annual growth	
Sector	2022	2023	2022	2023
Agriculture, forestry and fishing	10.1	11.5	3.3	1.3
Mining and quarrying	67.7	67.1	5.5	-0.4
Manufacturing	9.0	12.0	3.2	2.7
Electricity, gas, steam and air-conditioning supply	-5.6	-2.6	3.3	3.2
Water supply; sewerage and waste management	23.6	27.6	5.3	3.3
Construction	-14.7	-12.7	2.7	2.4
Wholesale and retail trade; repair of motor vehicles	14.1	16.2	-0.9	1.8
Transportation and storage	-17.0	-11.5	16.7	6.6
Accommodation and food service activities	-32.8	-11.4	25.3	31.8
Information and communication	10.4	11.8	2.4	1.3
Financial and insurance activities	10.2	13.4	7.4	2.9
Real estate activities	2.8	4.9	1.3	2.0
Professional, scientific and technical activities	11.4	13.9	3.3	2.2
Administrative and support service activities	5.2	6.6	-0.9	1.4
Public administration and defence	8.9	11.2	1.3	2.0
Education	-0.2	3.9	7.4	4.1
Human health and social work activities	5.3	8.1	3.2	2.6
Arts, entertainment and recreation	-14.7	-3.0	20.5	13.8
Other service activities	8.6	11.8	15.2	2.9
Activities of households	6.0	8.7	12.2	2.5

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

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

Sectoral employment recoveries in the medium term (2021 to 2023)

- Workforce job projections show that **London's labour market recovery is likely to vary even more widely**, with only **some of the capital's core specialist service sectors and the public sector seeing a recovery** across this year (Table A2).
- **Sectors hit hard by the pandemic are likely to take the longest to recover**. This includes customer-facing service sectors like **Accommodation and food services** and **Arts and entertainment**, which now face headwinds from squeezed real incomes.
- **Wholesale and retail trade** jobs are set to fall this year amid rising inflation.
- **We expect to see employment in London's core specialist service sectors push above 2019 levels** by next year, even if job growth is set to vary widely. **Information and communication** and **Real estate** are set for **firm job growth** over the two years, while **Financial services** and **Professional services** see **employment fall in 2022** before staging a recovery next year.
- Areas of the economy dominated by **public sector jobs are projected to generally remain above 2019 levels of employment** as departmental spending is set to grow in real terms across the rest of this parliament (up to 2024).

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

Workforce jobs	% diff from 2019		Annual growth	
Sector	**2022**	**2023**	**2022**	**2023**
Agriculture, forestry and fishing	-46.4	-45.8	167.9	1.2
Mining and quarrying	-10.2	-7.6	-19.2	2.8
Manufacturing	0.0	4.1	6.8	4.1
Electricity, gas, steam and air-conditioning supply	10.8	12.7	-0.4	1.8
Water supply; sewerage and waste management	13.2	20.2	-0.7	6.1
Construction	-13.8	-10.5	4.7	3.9
Wholesale and retail trade; repair of motor vehicles	2.5	3.2	-1.2	0.7
Transportation and storage	-0.3	0.9	2.3	1.2
Accommodation and food service activities	-7.0	-4.8	5.2	2.4
Information and communication	1.3	2.8	7.0	1.5
Financial and insurance activities	-0.6	0.7	-1.4	1.3
Real estate activities	0.6	5.0	5.4	4.4
Professional, scientific and technical activities	-0.4	0.3	-0.1	0.7
Administrative and support service activities	-4.5	-2.1	7.8	2.5
Public administration and defence	9.4	10.6	0.7	1.2
Education	2.2	3.6	0.1	1.3
Human health and social work activities	11.5	11.9	-0.2	0.4
Arts, entertainment and recreation	-5.9	-2.3	6.0	3.9
Other service activities	1.7	3.0	0.8	1.2
Activities of households	-0.3	-4.2	3.5	-3.9

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

Long-term projections (2024 to 2031)

- Looking at the longer term, **GLA Economics projects that real GVA levels will largely return to pre-crisis trends** (the counterfactual) **across the next six years**, meaning output scarring is confined to the medium term in our baseline (Figure A5).
- In our fast economic recovery scenario, output pushes above this pre-crisis trend as soon as this year, helping push London's growth back towards long-term averages.
- The slow recovery scenario sees London's output well below the counterfactual in the long term. Heavy scarring in the medium term raises structural unemployment, cuts investment and hits agglomeration benefits, lowering long-term output growth.
- As discussed above, these scenarios do not reflect the full range of uncertainty and there could be more downside risk in the long term associated with the city's ability to remain as attractive and competitive as in the two decades prior to COVID-19.

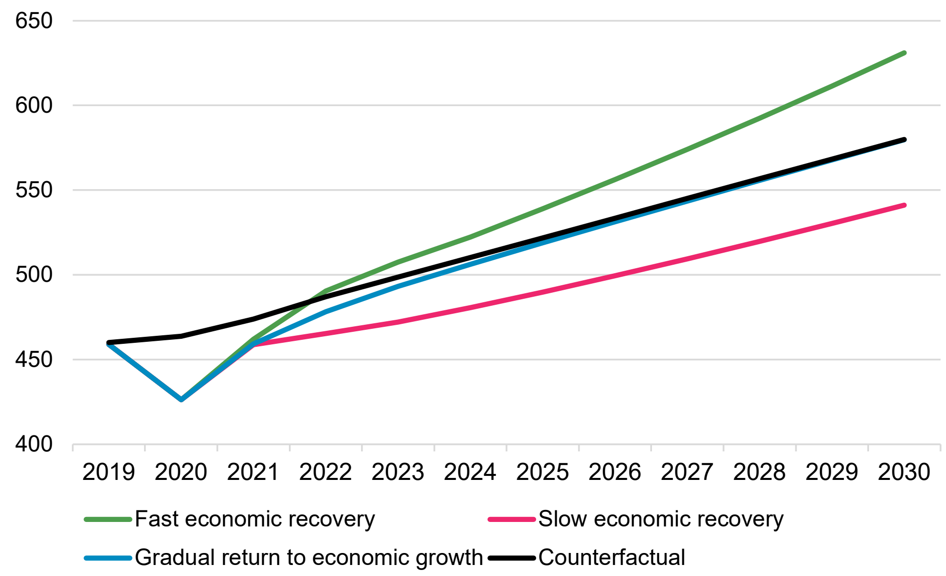


Figure A5: London's real GVA in levels (£ billion, constant 2018 prices) under all scenarios

Source: GLA Economics

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

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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.

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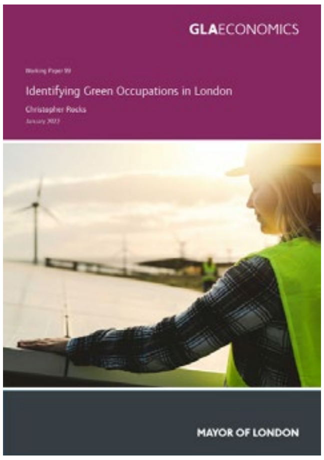

Identifying Green Occupations in London
Working Paper 99 uses an O*NET-based classification of green jobs to identify occupations that are likely to be affected by the transition to a low-carbon circular ('greener') economy.

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

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London's Economic Outlook: Autumn 2021
GLA Economics' 39th London forecast isuggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 6.4% this year due to the recovery from the COVID-19 crisis. This growth rate is expected to fall slightly to 5.0% in 2022 before moderating to 3.1% in 2023.

Download the full publication.

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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.

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

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