GLAECONOMICS

London's Economy Today

Issue 236 | April 2022

The cost of living continues to rise

By **Gordon Douglass**, Supervisory Economist, **James Watson**, Economist and **Jasmine Farquharson**, Project Management Apprentice

Increases in the cost of living intensified this month. The Ofgem price cap for standard energy bills increased by 50% and a higher rate of National Insurance Contributions (NICs) came into effect. Rising costs will have an impact on household budgets, particularly at the bottom of the income distribution.

Even before April's new pressures on household finances, inflation in March had hit a new 30-year high. CPI inflation in March was 7% year-on-year, the highest since a figure of 7.1% in March 1992, with prices rising 1.1% in the month of March alone. Once again, the figure exceeded consensus expectations and there was clear evidence of how widespread inflationary pressures have become. The largest headline contributions to annual inflation remained vehicle fuel costs, electricity and car prices. However, the breakdown of monthly inflation by category showed restaurant and hotel prices, clothing, and furniture and household equipment exerting upward pressure on CPI. Estimates by the National Institute of Economic and Social Research (NIESR) also suggest that London is seeing faster inflation than in the rest of the country. Their figure for London's underlying inflation rate in March was 0.8 percentage points above the UK average and the highest of any region.

The Office for National Statistics (ONS) have also provided insights into households' experiences of the cost of living from the Opinions and Lifestyle Survey. In March, even before the Ofgem price cap increase,

Also in this issue

Datastore

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

nearly a quarter of UK adults found it difficult or very difficult to pay usual household bills in the last month compared with a year ago. Perhaps unsurprisingly, that share is higher in areas facing higher deprivation, though the breakdown is only available for England. The share of adults struggling to pay usual bills rises to over one in three households in the most deprived areas of England (Figure 1). Around 1 in 10 (13%) adults in the most deprived areas also reported that they were behind on payments for gas or electricity bills. Wider housing costs were also a problem, with around 3 in 10 adults paying a mortgage or rent reporting that it was very or somewhat difficult to pay their housing costs. And households may be less able to absorb these growing costs going forward, with 43% of adults reporting they would not be able to save money in the next 12 months. This is the highest percentage since the question was first asked in March 2020.

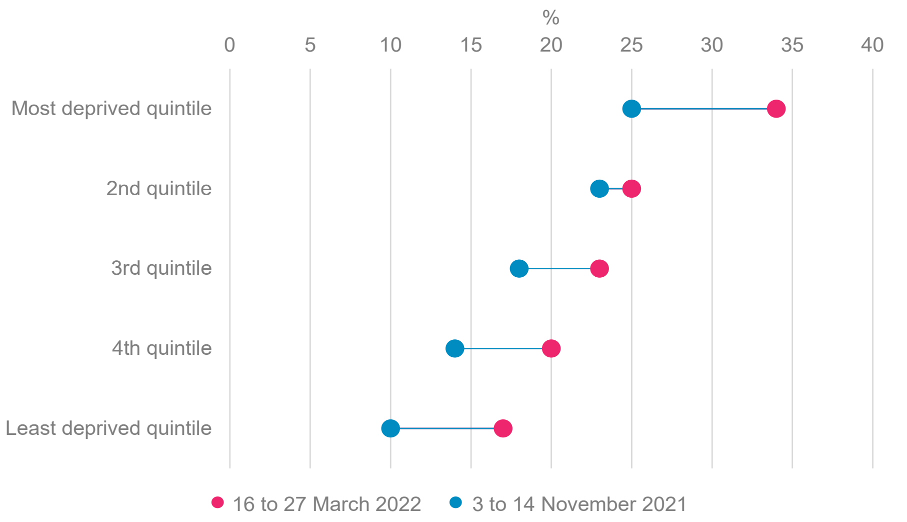


Figure 1: Share of adults in England finding it difficult to pay bills, by deprivation of their local area

Source: ONS; Note: share is proportion of adults finding it 'difficult' or 'very difficult' to pay their usual household bills last month, compared to a year ago; deprivation measured by Index of Multiple Deprivation

Economic growth weakened in February

Another concerning sign for the economy came this month with the release of February's GDP data. While activity still picked up across the month, it rose just 0.1% after the surprisingly strong 0.8% increase in January. The February reading was below consensus expectations, and while a big part of the downside surprise came from health spending, several sectors were weak. The sharp drop of nearly 4% in health spending came as the pace of vaccinations and testing eased and other COVID-19-related activities wound down. However, the Construction, Manufacturing, Real estate and Retail sectors all saw declines in activity. Some sectors did see strong growth, however, with Accommodation and food services finally recovering to pre-pandemic levels of activity with an 8.6% surge in output.

Alongside weak Retail sector GDP in February, other indicators also point to the rising cost of living prompting consumers to cut their spending plans. UK consumer confidence in April hit -38, its lowest point since the record trough in July 2008. This makes April 2022 the second-worst reading since the series began in 1974. The most recent hard data showed March retail sales volumes falling 1.4%, with non-store sales making up the bulk of the drop. On aggregate, London may initially be insulated from the largest impact, as consumer confidence was at a comparatively modest negative reading of -12 in April, while Mastercard retail data suggested that London shop sales may have outperformed figures from the wider UK in recent months. However, London's sharp inequality and high levels of poverty after housing costs mean that consumer resilience is likely to be very unevenly spread across the capital. Already, the Mastercard data show real spending in shops is strikingly varied by area (Figure 2).

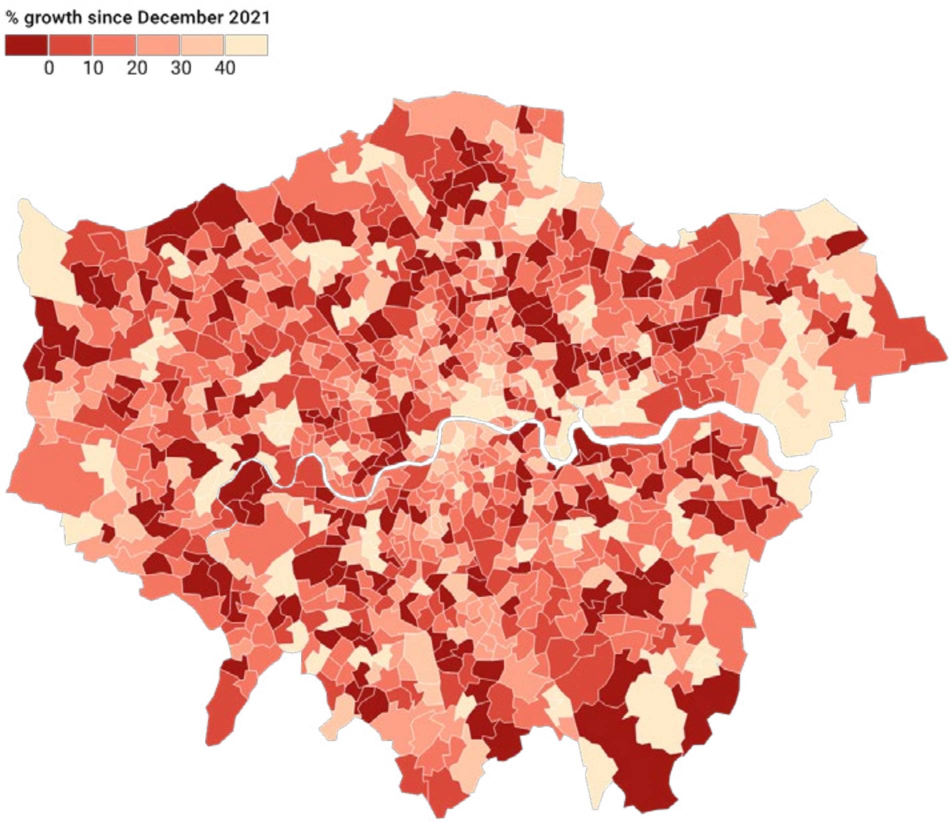


Figure 2: Retail card spending real growth from December 2021 to March 2022

Source: Aggregated and anonymised data from Mastercard

Map data © Crown copyright and database right 2020

Created with Datawrapper

In the coming year, the already-stuttering recovery is likely to face a growing range of headwinds. The International Monetary Fund (IMF) has downgraded its forecast for the UK with the economy expected to grow by 3.7% this year (down 1 percentage point (pp) on its January forecast) and by 1.2% next year (a 1.1pp downgrade). The IMF observed that "consumption is projected to be weaker than expected as inflation erodes real disposable income, while tighter financial conditions are expected to cool investment".

War in Ukraine expected to negatively impact global growth

The IMF published its first World Economic Outlook forecast since the start of the war in Ukraine. It notes that "global growth is expected to slow significantly in 2022, largely as a consequence of the war", while inflation is expected to increase further. Global growth is expected to slow from 6.1% in 2021 to 3.6% both this year and next. This is a downgrade on the 2022 growth forecast of 0.8pp and a downgrade of 0.2pp on 2023 compared to what it was forecasting in January. The IMF further noted that "financial stability risks have risen along many dimensions, although no global systemic event affecting financial institutions or markets has materialized so far". The World Bank has also recently downgraded its global growth forecast this year to 3.2% (down 0.9pp) due to the impact of the war. The war is expected to disrupt global trade growth with the World Trade Organisation (WTO) cutting its forecasted growth in world goods trade this year by a third to 3%. It however also warned that a protracted war and embargo of Russia could cut growth to 0.5%. And it further warned that food prices could jump by 37%.

Beyond the war, the World Bank notes that lockdowns in Chinese cities to stop the spread of COVID-19 are also disrupting seaborne trade. Data shows that despite growing more strongly than expected in the first quarter, China's economy has recently been negatively affected by these lockdowns with retail sales contracting in March, the first time this has happened since July 2020. In response, the People's Bank of China has introduced a number of supportive measures to encourage financial institutions to support the property sector and local government investment projects.

Mixed signals on London office space

The estate agents Savills released data this month which indicates that the demand for office space in the Square Mile has rebounded strongly in recent months, with transactions equalling £3.3bn in the past three months. Stephen Down, head of Central London investment at Savills, said that this showed a return to more normal trading conditions but did warn that "the increased cost of finance and macro-political uncertainty is having a greater impact on buyer decisions in London just as it is around the globe". However, Deloitte has announced it will be further downsizing its office space in London with it leaving its New Street Square campus.

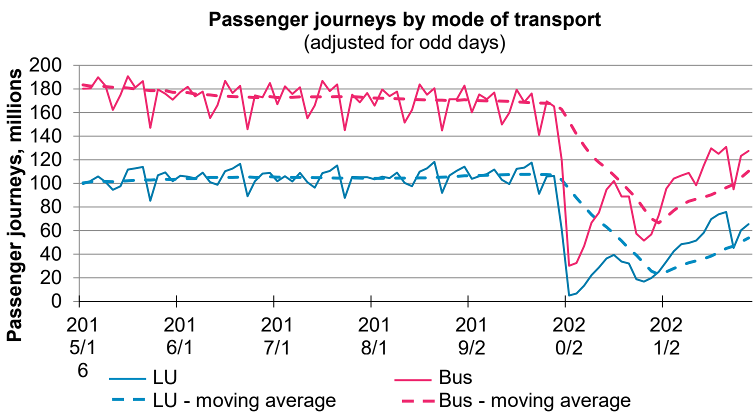
Looking at London's international retail attractiveness, April saw research by Unidays rating Covent Garden as the most popular shopping street in Europe, ahead of the Champs-Élysées in Paris. Oxford Street was rated third in the ranking with Regent Street sixth. Thus, although the capital continues to face challenges such as rising inflation, which is depressing consumer confidence, it retains a number of advantages. GLA Economics will continue to monitor these challenges and opportunities 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 going into Spring

- 192.8 million passenger journeys were registered between 6 February 2022 and 5 March 2022, 9.4 million journeys more than in the previous period (9 January 2022 – 5 February 2022).
- In the latest period, 65.4 million of all journeys were underground journeys and 127.4 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 155.1 in the previous period to 164.0 in the latest period.

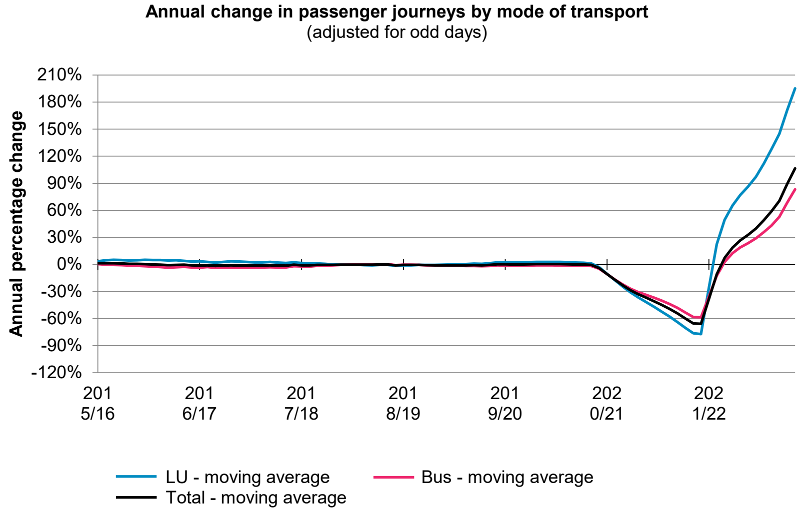
Source: Transport for London
Latest release: April 2022, Next release: May 2022



Annual passenger journey numbers continue to recover

- The 13-period moving average annual growth rate in the total number of passenger journeys was 106.5% in the period 6 February and 5 March up from 89.4% in the previous period 9 January 2022 to 5 February 2022,
- The moving average annual growth rate of bus journeys increased from 68.7% to 83.3% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys went up from 171.2% to 195.2% between those periods.

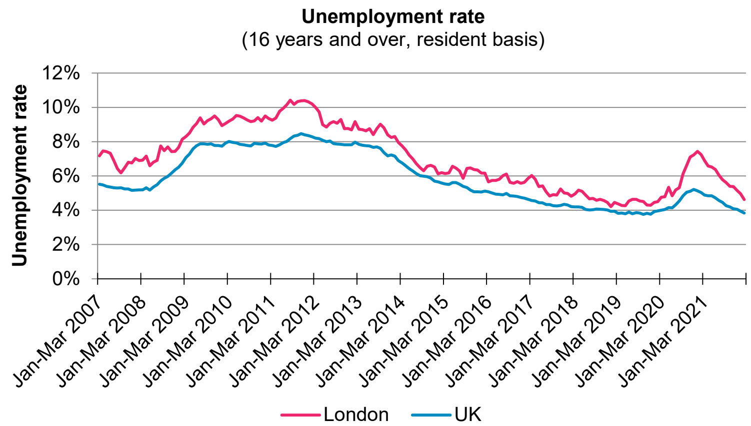
Source: Transport for London
Latest release: April 2022, Next release: May 2022



London's unemployment rate fell to 4.6% in the quarter to February 2022

- Around 233,000 residents 16 years and over were unemployed in London in December – February 2022.
- The unemployment rate in London was 4.6% in that period, down from 5.4% in the previous quarter, September–November 2021.
- The UK's unemployment rate also decreased, from 4.1% in September – November to 3.8% in December – February 2022.

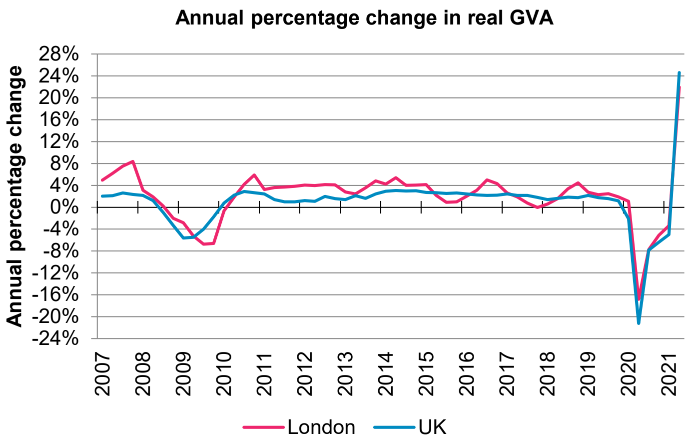
Source: ONS Labour Force Survey
Latest release: April 2022, Next release: May 2022



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.

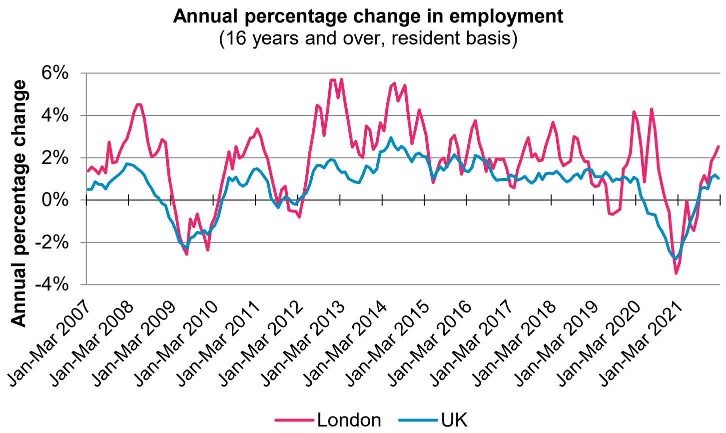
Source: ONS and GLA Economics calculations
Latest release: February 2022, Next release: June 2022



London's year-on-year employment growth rate was 2.5% in the quarter to February 2022

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of December– February 2022.
- The rate of employment growth in the capital was 2.5% in the year to this quarter, compared with 0.8% in the previous quarter to November 2021.
- The change in the UK's employment annual growth rate was 1.0% in the most recent quarter, and 0.5% in the previous quarter.

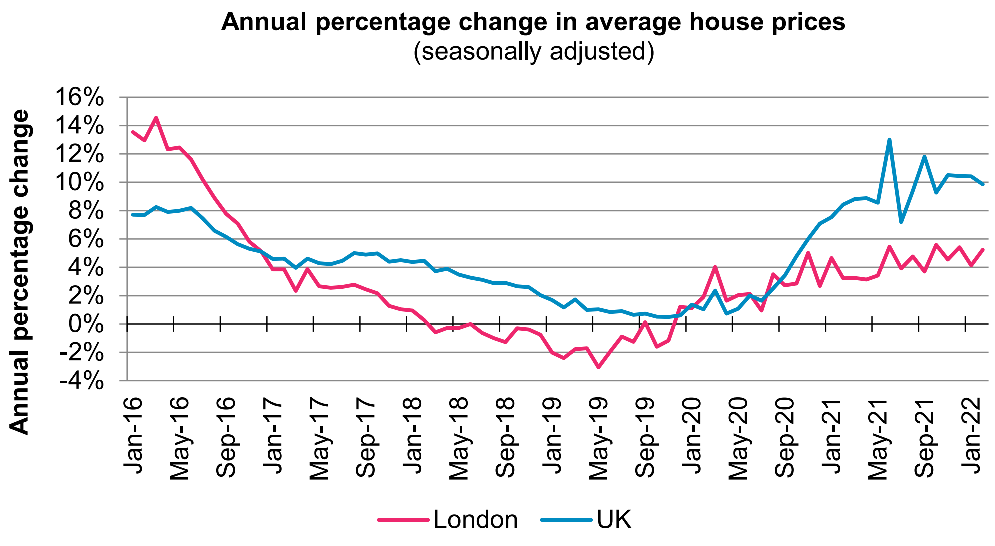
Source: ONS Labour Force Survey
Latest release: April 2022, Next release: May 2022



House prices growth in London remained positive in February

- In February 2022, the average house price in London was £518,000 while for the UK it was £274,000.
- Average house prices in London rose by 5.2% in annual terms in February, more than the January rate of 4.1%
- Average house prices in the UK rose by 9.8% in annual terms in February, close to the January rate of 10.4%.

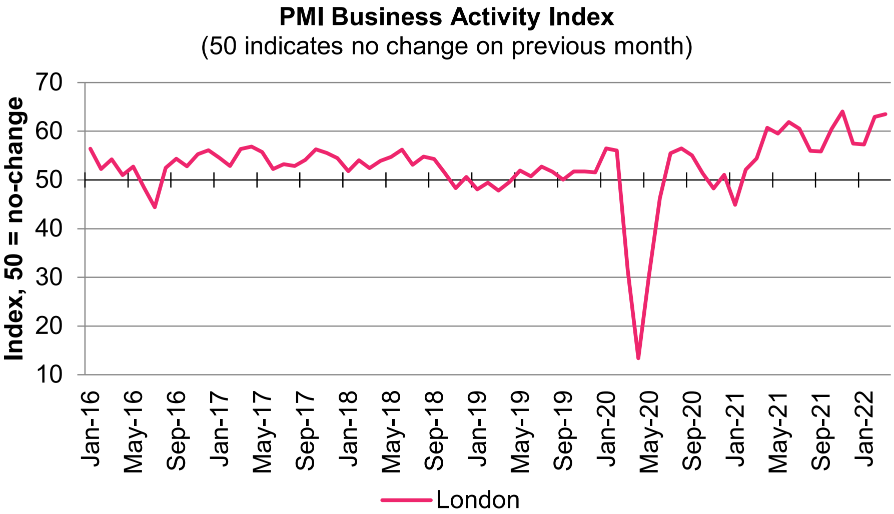
Source: Land Registry and ONS
Latest release: April 2022, Next release: May 2022



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

- The business activity PMI index for London private firms increased from 63.0 in February to 63.5 in March.
- 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.

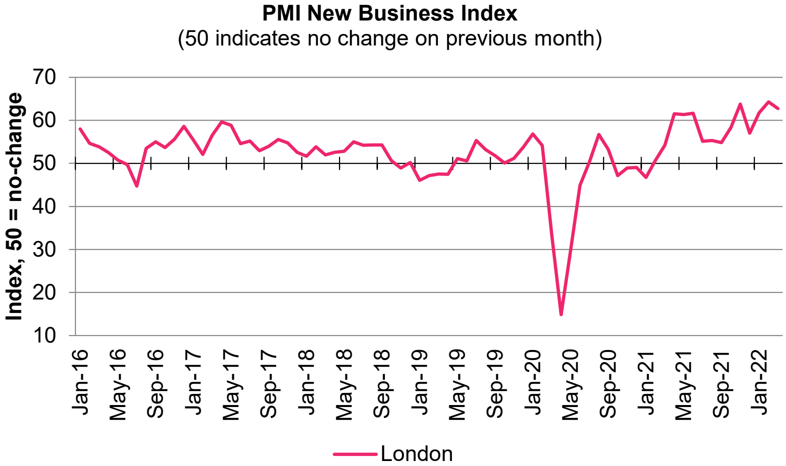
Source: IHS Markit for NatWest
Latest release: April 2022, Next release: May 2022



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

- The PMI new business index in London decreased from 64.3 in February to 62.7 in March.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

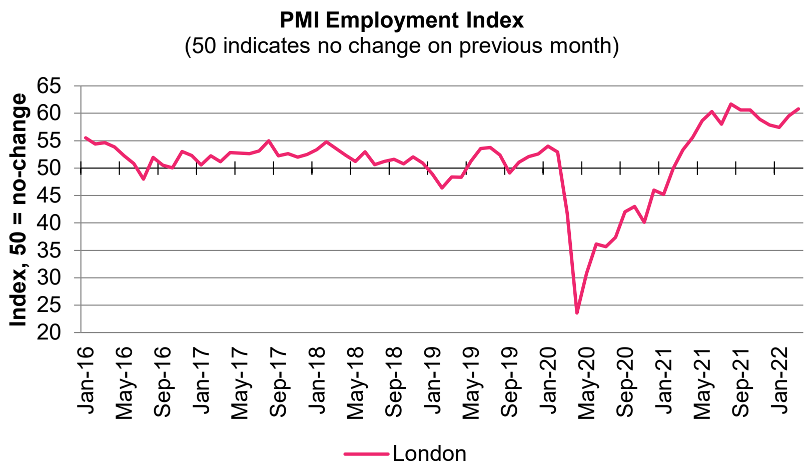
Source: IHS Markit for NatWest
Latest release: April 2022, Next release: May 2022



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

- The Employment Index for London increased slightly from 59.6 in February to 60.8 in March. 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.

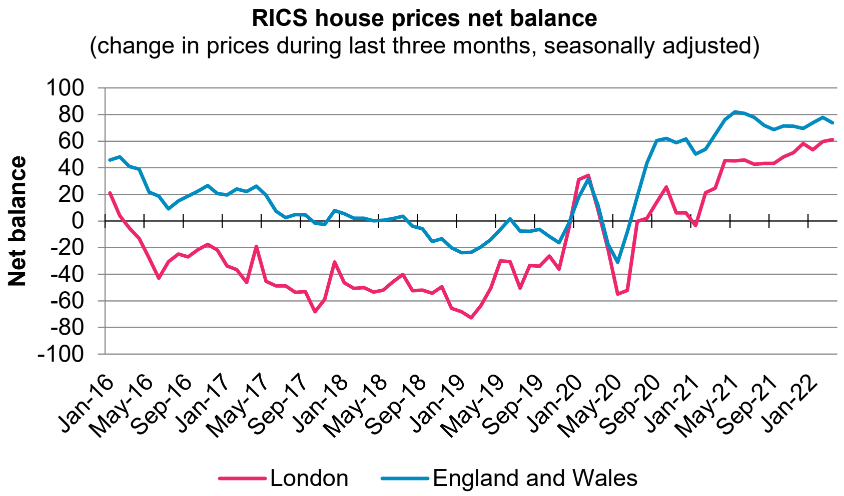
Source: IHS Markit for NatWest
Latest release: April 2022, Next release: May 2022



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

- In March, the net balance of property surveyors in London reporting a rise in house prices was 61, and in February it was 60.
- For England and Wales, the RICS house prices net balance index decreased slightly from 78 in February to 74 in March.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

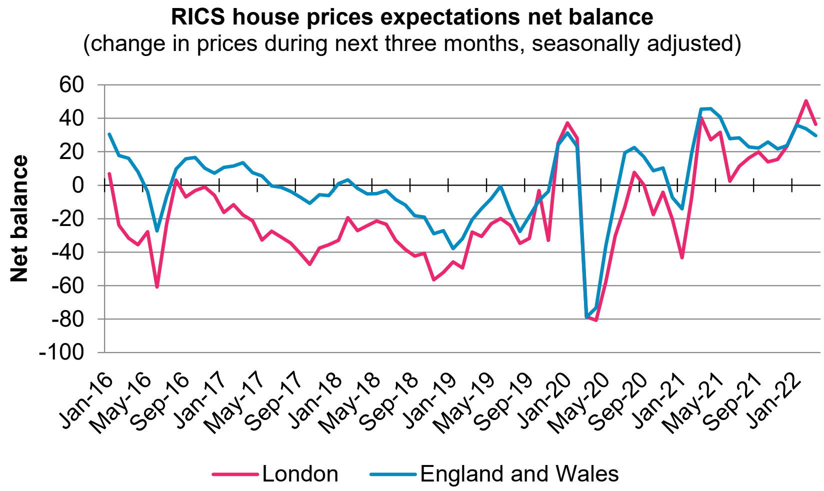
Source: Royal Institution of Chartered Surveyors
Latest release: April 2022, Next release: May 2022



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

- The net balance of house prices expectations in London was 36 in March, lower than the balance of 50 in February.
- Sentiment in England and Wales was 30 in March, lower than the value of 34 in February.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

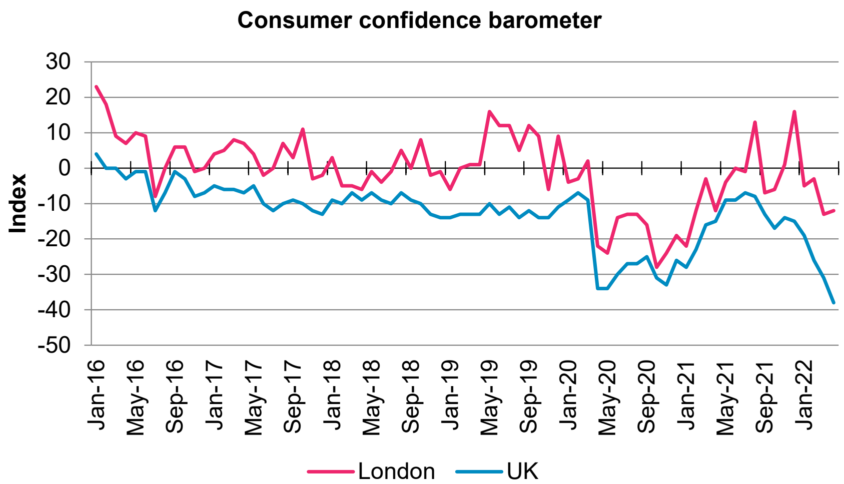
Source: Royal Institution of Chartered Surveyors
Latest release: April 2022, Next release: May 2022



Consumer confidence in London remained negative in April

- In April, the consumer confidence index in London increased slightly to -12 from -13 in March.
- The sentiment for the UK decreased from -31 in March to -38 in April. 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: April 2022, Next release: May 2022



Summary of Local Skills Report, Spring 2022

By **Ammar Ljubijankic**, Economist

The GLA published an update of its Local Skills Report (LSR) this February, following the first iteration published in March 2021. The updated LSR was published alongside extensive Data Annexes, providing insight into the key aspects of the local labour market and skills landscape at a London and sub-regional level.

This supplement summarises some of the key data and analysis which were highlighted in the report and annexes.

London's labour market has been growing long-term

London's labour market is fast-growing. London's population grew by 12% from 2010 to 2020, faster than the England average of 7%. The number of Londoners in employment increased by a fifth, from 3.7 million in 2010 to 4.5 million in 2021.

Figure A1 further illustrates the key trends in London's labour market over the past decade. The employment rate has risen from below 68% to around 76%, while the unemployment rate has dropped from 10% to below 5% during this time. Despite clear setbacks during the COVID-19 pandemic, the picture is one of longer-term improvements in these headline labour market indicators.

These trends are partially fuelled by higher migration by non-UK workers to London: while 28% of jobs in London were held by workers born outside the UK in 2004, this had increased to 41% in 2020.

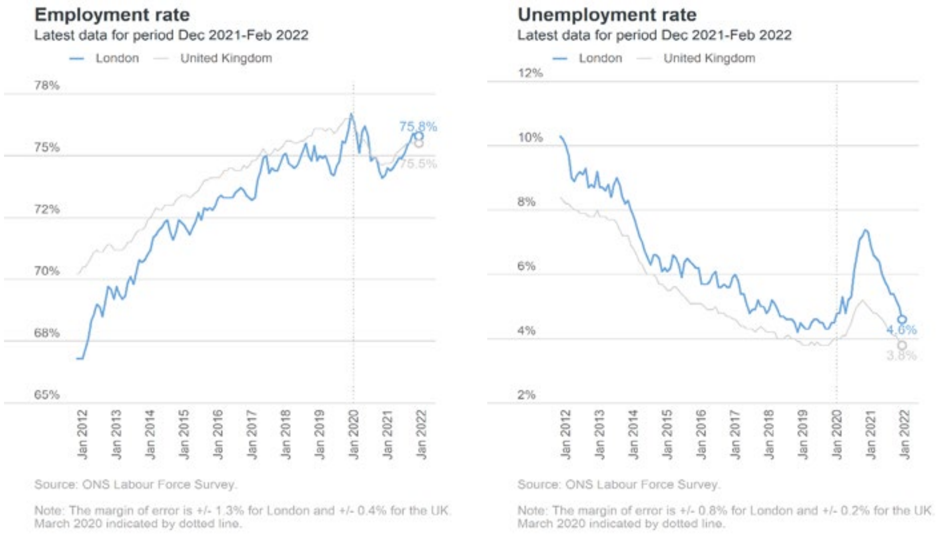


Figure A1: London headline labour market rates

Source: ONS Labour Force Survey

Londoners are relatively highly educated and productive

The proportion of Londoners with higher-level qualifications is significantly above the England average (see Figure A2). Around 59% of working age Londoners held a high-level qualification (NVQ4+) in 2020, a substantial increase from 31% in 2004. This is partly because the capital attracts highly qualified people, but also because more young Londoners are progressing to higher levels of education.

London is also one of the most productive regions in Europe, with many workers in higher-paying industries such as finance or the digital and creative industries[1]. London's level of labour productivity is one third higher than the England average and the highest of any UK region or country, supported by higher skill levels among the capital's workforce (albeit this gap has narrowed over the last decade)[2].

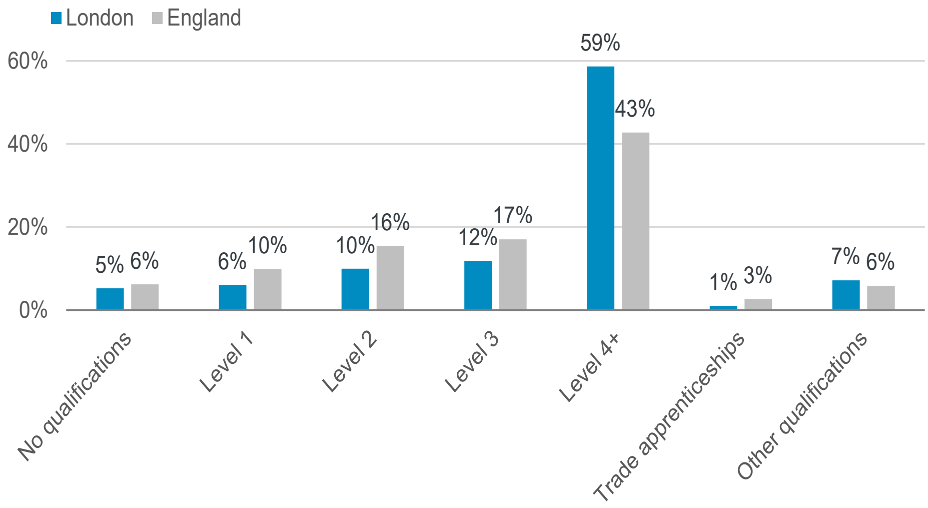


Figure A2: Qualifications of people aged 16-64, 2020

Source: [Annual Population Survey, January 2020 – December 2020](#)

1 The share of total London employments within professional, ICT and finance sectors is significantly higher than in England on average.

2 Though the figures for gross value-added per hour worked were £46 in London and £35 in England on average, productivity growth averaged 1.9% per year on average in England but only 1.7% in London from 2010 to 2019.

Demographic and geographic inequalities nevertheless persist

These headline labour market indicators conceal significant inequalities both by demographic characteristics and location, as shown in Figure A3. The employment rate for Londoners with degree-level qualifications was twice that for those without any formal qualifications, a bigger difference than in other parts of the country. Londoners from 'mixed', 'other', 'black', and 'Pakistani / Bangladeshi' ethnic groups also had below average employment rates, as did disabled Londoners. By local authority, the employment rate was 18 percentage points (pp) higher in the London borough of Wandsworth than in Westminster during the same period.

Figure A3: 16-64 employment rate (%) for select groups in London in 2020

Source: [Annual Population Survey, January 2020 – December 2020]

There are also very significant differences in qualification attainment at borough level. The share of Londoners with low or no qualifications was 11% on average in 2020. However, the boroughs of Havering and Hounslow saw shares of 18%, which was higher than the national average (16%). These differences are also reflected in salaries: the median gross weekly wage for resident employees in Kensington & Chelsea was more than 50% higher than for residents in Brent.

London's labour market was significantly affected by the COVID-19 pandemic

The impact from the pandemic was often more severe in London than other UK regions. The total number of workforce jobs in London fell by 1.7% between December 2019 and 2021 compared to a decrease of 1.4% across the UK on average. Self-employment jobs were particularly affected, dropping by 15.5% in London during this period[3].

The impact also varied across industries. Between December 2019 and December 2021, the number of workforce jobs in London had increased by 7.8% in the Health sector but decreased by 12.9% in Construction (see the London Labour Market Update for March 2022).

The post-lockdown economy has also posed additional challenges as employers struggle to hire workers. A fifth of London businesses faced a lack of applicants in 2021[4] and almost two thirds of those looking to recruit faced difficulties in doing so[5]. Employers in London experienced recruiting difficulties for reasons such as the decrease in the number of migrant workers; high employee turnover; and general skills shortages.

3 More timely data from HMRC suggests a 1.2% increase in payrolled employees from the pre-pandemic peak in March 2022, though this may reflect a net movement from self-employment.
4 London Councils (2022) London Business 1000 Survey.
5 London Chamber (2022) Capital 500 Survey 2022Q1.

Most deprived areas saw similar impacts to worst-off boroughs

The London Claimant Count (a measure of people claiming benefits[6]) rose by 81% between March 2020 and February 2022, highlighting the significant impact on individuals. The number of claimants was estimated at 337,000, though it had reached 509,000 at the peak of the pandemic. The claimant count rate (as a proportion of residents aged 16 to 64) increased by approximately 2.5pp in London on average during the same period, though some boroughs saw even higher increases at up to 4pp (see Figure A4). Out of the 20 local authorities with the highest change in the claimant count rate in the UK, 16 were in London.

The level of neighbourhood deprivation was also correlated with the intensity of the pandemic impact. The claimant count rate increased by 3.5pp in the most deprived quintile of London neighbourhoods compared to 1.1pp in the least deprived quintile. As a result of such differences in impact, there are concerns that the pandemic will exacerbate existing inequalities in the capital in the long run.

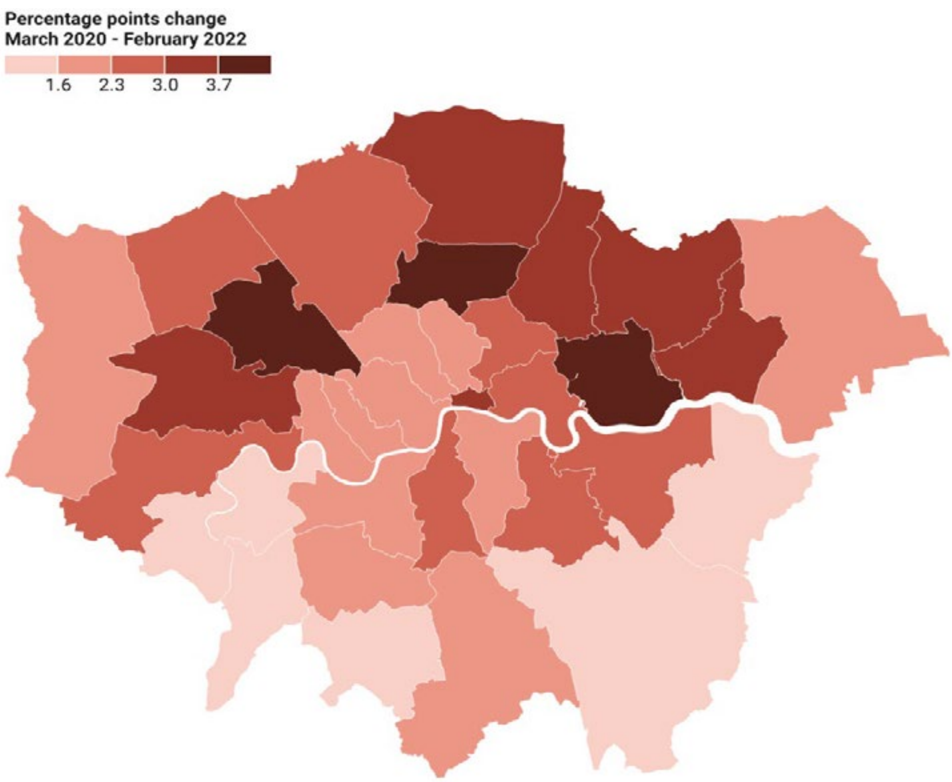


Figure A4: Change in claimant count rate (16-64) by local authority

Source: ONS claimant count (2022). Note: claimant count data is not seasonally adjusted

The Local Skills Report and Annexes can be found on the London Datastore. For the latest data on London's labour market, GLA Economics releases monthly labour market updates which are also available on the London Datastore.

6 Some claimants will be unemployed and seeking work, others may be temporarily inactive or away from work, or employed but with low earning.

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.

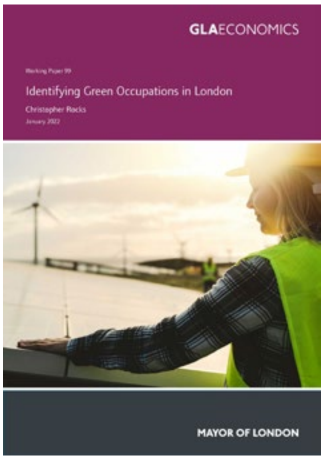
We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

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.



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.

Download the full publication.

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.

GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

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

April 2022

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