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UK GDP falls in July

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Data published by the Office for National Statistics (ONS) this month showed that the UK economy contracted by 0.5% between June and July (Figure 1). Although a drop had been expected this was more than most economists had been predicting. Despite this monthly drop output was 0.2% higher in the 3 months to July.

Output in the service, production and construction sectors all fell between June and July, by 0.5%, 0.7% and 0.5% respectively. Looking at the service sector, a sector of particular importance to London's economy, the ONS observed that at the UK level "output in consumer-facing services showed no growth in July 2023, while all other services fell by 0.6%". However, within that "the largest negative contributions came from retail trade, except of motor vehicles and motorcycles (down 1.2%) and travel agency, tour operator and other reservation service and related activities (down 3.2%)". In attempting to explain the drop in GDP seen in July the ONS observed that "there were some common themes that were anecdotally reported" these included the impact of industrial action and the wet weather in that month.

The ONS revises up the UK's post pandemic recovery

Still notwithstanding this poor news in recent GDP data the ONS did also produce revised estimates of the UK's post pandemic economic growth. This significantly increased the rate of recovery for the UK economy in 2021, while also reducing the size of the drop in

Also in this issue

Datastore

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

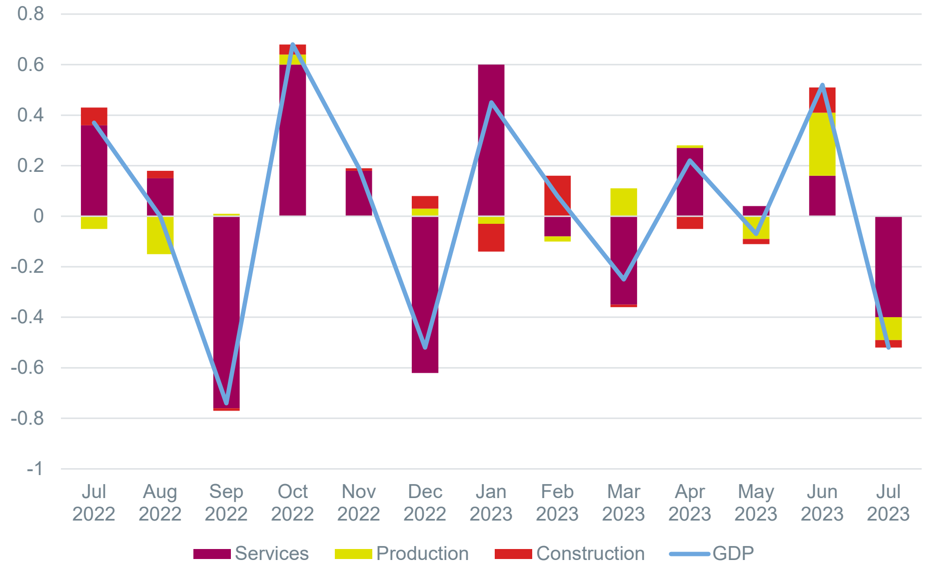


Figure 1: Contributions to monthly GDP growth, July 2022 to July 2023, UK

Source: ONS

the economy in 2020. The ONS now estimates that GDP fell by 10.4% in 2022 rather than a previously estimated drop of 11.0%. Growth in 2021 is now estimated at 8.7% rather than the previous estimate of 7.6%. This means that the ONS now estimates that the UK economy was 0.6% above its pre-pandemic peak by the final quarter of 2021, rather than the previous estimate of it being 1.2% smaller. These revisions mean that rather than having the worst post pandemic recovery of any G7 economy, the UK's recovery is now just behind France and Italy's and ahead of Germany's. Although it should be noted that these countries have not so far undertaken methodological revisions to their 2021 data.

Inflation unexpectedly falls in August

ONS data published this month showed that Consumer Price Index (CPI) inflation unexpectedly dropped in August. CPI inflation stood at 6.7% in the year to August down from 6.8% in July (Figure 2). Most economists had expected the figure to pick up in part due to rising oil prices.

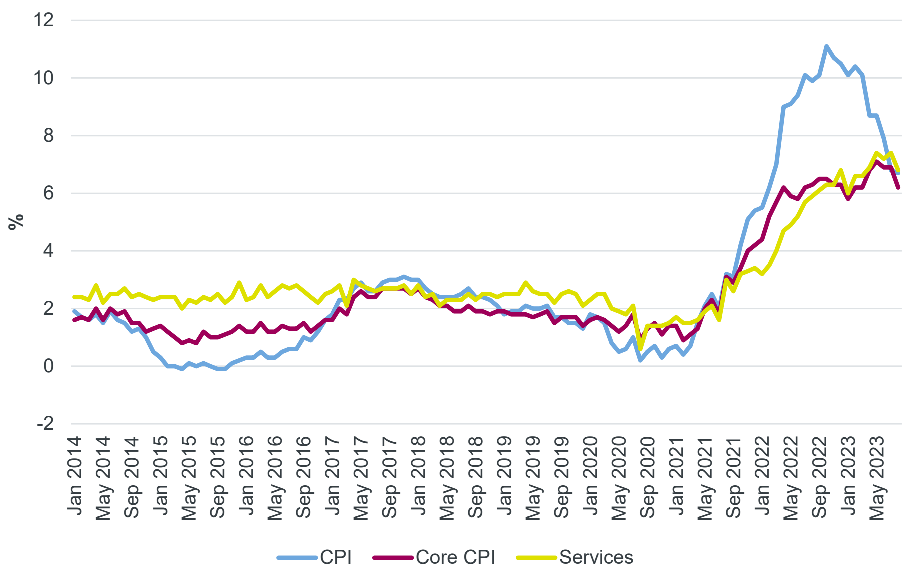


Figure 2: Annual CPI, core CPI and services inflation, January 2014 to September 2023

Source: ONS

The ONS noted that the largest downward contribution to inflation "came from food, where prices rose by less in August 2023 than a year ago, and accommodation services, where prices can be volatile and fell in August 2023". Whereas "rising prices for motor fuel led to the largest upward contribution to the change in the annual rates". Core CPI which excludes energy, food, alcohol and tobacco also fell. It thus rose at an annual rate of 6.2% in August down from 6.9% in July. Services inflation, which along with core inflation is often seen as a good indicator of underlying inflation also dropped back to 6.8% in August down from 7.4% in July.

British Retail Consortium (BRC) data also showed slowing price rises in shops in August. Their data showed that prices in shops increased by 6.9% in August down from 8.4% in July. However, the BRC did note that increases in alcohol taxes had pushed up these figures with their chief executive, Helen Dickinson, observing that "these figures would have been lower still had the government not increased alcohol duties earlier this month".

There was also good news on wages this month with ONS data showing in the three months to July the annual growth in UK average pay (excluding bonuses) stood at 7.8%. Including bonuses, the figure stood at 8.5%. Still, despite real wages now growing research by the Resolution Foundation published this month projected that there will be zero real growth for median non-pensioner household income in 2024-25. With them further seeing "zero growth also projected for 2023-24 and 2025-26… a three-year stagnation, following a sharp income fall in 2022-23". This stagnation they said was due to the impact of higher taxes and mortgage costs and the end of government cost of living payments.

Majority of Londoners just about managing or struggling

Looking at the impact of the cost of living crisis in London, new polling by YouGov for the GLA[1] found that although the crisis may no longer be worsening it is still having a big impact on Londoners. Thus, it found that:

- The proportions of Londoners 'struggling financially'[2] (21%) and 'just about managing' (32%) have held in August compared to July.
- Whilst the top two ways to manage living costs remain spending less on non-essentials (51%) and buying cheaper products (50%), the next 8 actions are taken by significantly fewer Londoners (see Figure 3) and cluster around similar proportions (around a quarter of Londoners overall).
- 'Financially struggling' Londoners are around twice as likely to be buying less food and essentials than the average Londoner (52% versus 26%) and about three times as likely to be going without essentials (18% versus 6%).
- A much larger proportion of 'Financially struggling' Londoners are 'looking for a better-paying job' (24% v 15%), 'using more credit or going into debt' (26% v 11%) and 'borrowing money' (29% v 8%) when compared to all Londoners.

Bank of England ends its run of interest rate rises

With the surprising drop in the rate of inflation in August and some weakening national indicators such as PMIs the Bank of England's Monetary Policy Committee (MPC) voted by 5 votes to 4 to maintain UK interest rates at 5.25%. This was the first time in 15 consecutive meetings at which the MPC chose not to increase rates.

Even before this hold in interest rate increases, some mortgage lenders had been reducing some of the rates on their products. This was in part due to financial markets anticipating the possibility of some cuts in rates starting next year. Despite this house price data from the Nationwide showed the average UK house price was down 5.3% in August compared to a year earlier. This was a drop of over £14,600 and the biggest fall since 2009. They also reported that mortgage approvals were 20% below their pre-pandemic levels. The Halifax also reported house price drops in August. They stated that average UK prices dropped 4.6% in the

1 All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1072 adults. Fieldwork was undertaken between 18th to 24th August 2023. The survey was carried out online. The figures have been weighted and are representative of all London adults (aged 18+). GLA cost of living polling can be found at https://data.london.gov.uk/gla-cost-of-living-polling/2/

2 'Struggling financially' comprises of those who responded 'I am having to go without my basic needs and /or rely on debt to pay for my basic needs' or 'I'm struggling to make ends meet' when asked about their current financial situation.

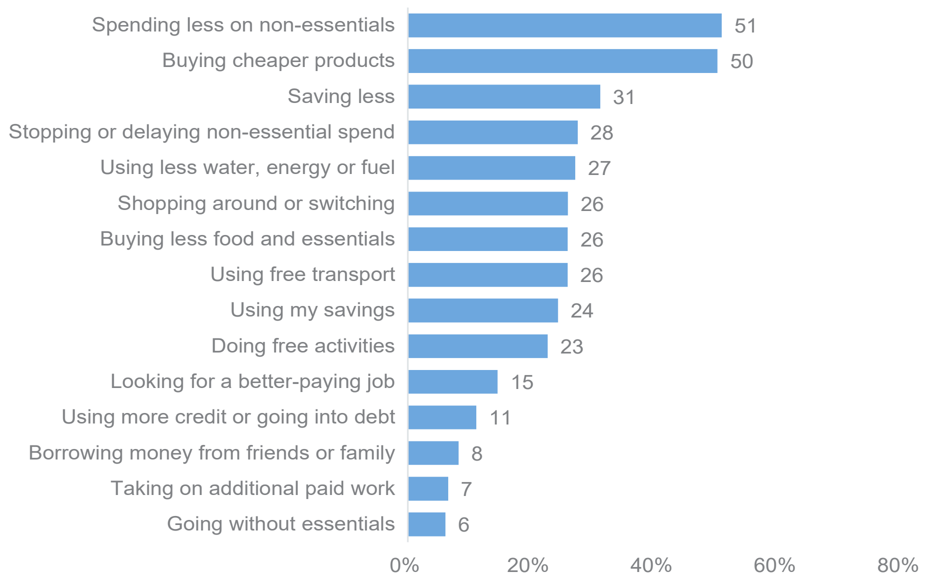


Figure 3: How Londoners are managing living costs: Top 15 actions

Source: YouGov polling for the GLA

year or by around £14,000. However, it should be noted official ONS data still shows house price growth at the UK level, if not for London.

Although property prices may be easing this has not been accompanied by an easing in rental costs according to data from the estate agents Hamptons. This data showed that nationally monthly rents on new let properties were up 12% year-on-year in August to over £1,300 per month. While in London this was even higher with average rentals increasing by 17% to over £2,300. ONS data for all private rentals although showing high rental cost rises are less eyewatering with it finding London's annual private rental prices increased by 5.9% in August. This was the highest rate in England and the highest recorded rate in the capital since data collection began in January 2006.

Forecasters become more pessimistic for the global economy next year

Internationally there remains concern for the prospects of the global economy. In an aggregation of forecasts for the global economy the consultancy Consensus Economics found that forecasters on average expect it to grow by 2.1% in 2024 down from an expected growth of 2.4% this year. This in part is due to a belief that inflation will be persistent for longer leading to central banks raising interest rates further, and holding them high for longer.

As an example of rising global interest rates and in a reaction to continued inflation in the Eurozone the European Central Bank (ECB) raised interest rates in the Zone to a record high in September. Rates now stand at 4% up from 3.75%. However, despite global expectations of further rate rises more rises in the Zone may not occur soon with the ECB stating that "the governing council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". Looking at the prospects for the Zone's economy the latest forecast from the European Commission, which was published this month, expects its economy to grow by 0.8% in 2023 and 1.3% in 2024.

UK agrees deal to re-join the Horizon science programme

Beyond the current economic situation the adjustment to the UK's post Brexit institutions continues with the UK agreeing a deal to rejoin the EU's Horizon science programme in September. This deal, which has to be approved by all EU member states, will make the UK an associate member of the programme. The UK had negotiated associate membership back in 2020 but this had been held up due to disputes about Northern Ireland's trading rules.

Elsewhere, research by the think tank UK in a Changing Europe has looked at the investments undertaken by the post Brexit UK backed public sector lenders set up to replace the investment from the European Investment Bank (EIB). This research found that these successor investment banks invested just 17% as much in 2022 as the EIB had been investing in the UK before it wound down its investments in preparation for Brexit.

Payrolled employee numbers stay stable in London

The national and international economic situation remains weak, but there remains strength in London's economy. As an example, although, as shown in the indicators section of this publication, ONS employment data shows a decline, other indicators are more positive. Hence, the count of payrolled employees from HMRC's Pay As You Earn (PAYE) RTI dataset, which offers a timely measure of labour market trends, shows that there were around 4.3 million payrolled employees living in London in August 2023 according to early estimates, unchanged on the previous month. This data although stable on the previous month represents an increase of 73,800, or 1.7%, on the previous year (August 2022) against a UK average increase of 1.5%. Relative to pre-pandemic (February 2020) levels, the number of payrolled employees in London was up by 165,000, or 4.0%. This compares to an increase of 3.9% across the UK on average.

There is however a lot of variation in the change in payrolled employee numbers by London local authority (Figure 4). The number of payrolled employees living in Barking and Dagenham, the borough with the highest growth (excl. the City), was up by 4.7% on the year in August 2023. While, the borough with the lowest growth, Kensington and Chelsea, recorded a decrease of 2.6%.

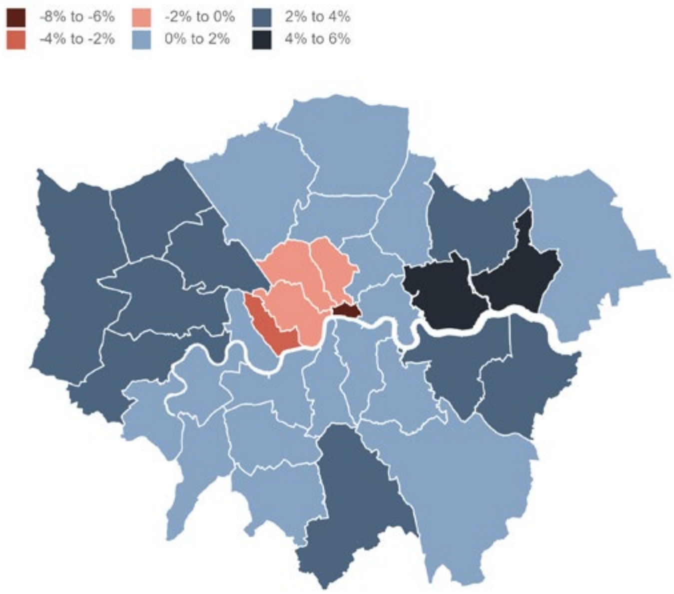


Figure 4: Changes (%) in payrolled employees by London local authority, comparing August 2023 levels with the year earlier

Source: HM Revenue and Customs - Pay As You Earn Real Time Information. Contains Ordnance Survey data Crown copyright and database rights [2015].

Note: Estimates are based on where employees live.

The RTI dataset also provides information on the nominal monthly pay of payrolled employees living in London. This showed in August that median monthly pay in London was £2,700, an increase of 5.4% on the year. However, this increase was lower than the UK as a whole where median pay was £2,260, up by 6.7% on the year.

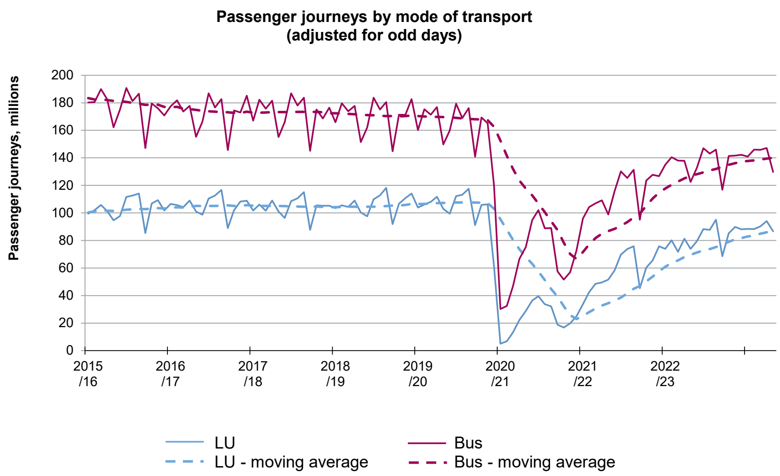
Looking at other data for London's economy gives a mixed picture for its current performance. So, as shown in the indicators section for this publication, consumer confidence in London was very strong in September especially when compared to the UK. However, some of the PMIs for London were either stagnant or showed slight declines. GLA Economics will continue to monitor all these trends and other aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport remains very marginally upward

- 216.3 million passenger journeys were registered between 23 July and 19 August 2023, 24.9 million fewer than in the previous period. 241.2 million passenger journeys were registered between 25 June and 22 July 2023.
- In the latest period, 86.6 million of all journeys were underground journeys and 129.7 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 225.4 million in the previous period to 226.9 million in the latest period.

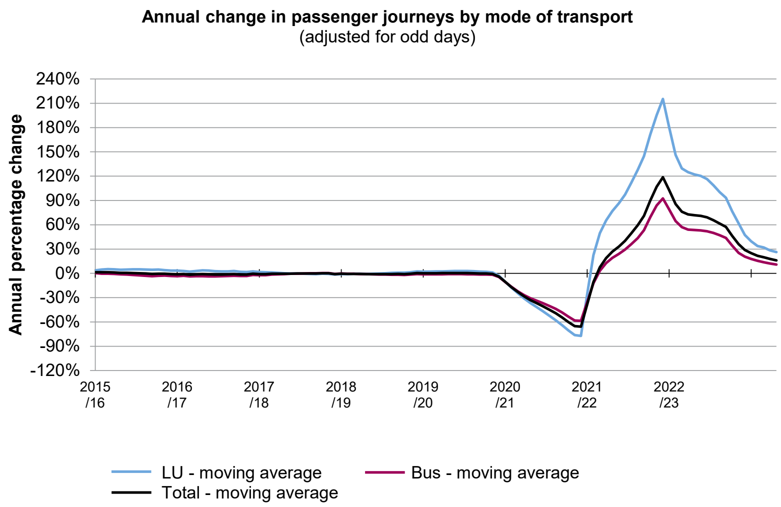
Source: Transport for London
Latest release: September 2023, Next release: October 2023



Annual growth in passenger journeys remained strongly positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 16.1% between 23 July and 19 August 2023, down from 17.7% between 25 June and 22 July 2023.
- The moving average annual growth rate of bus journeys decreased from 12.2% to 10.8% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 28.3% to 26.3% between those periods.

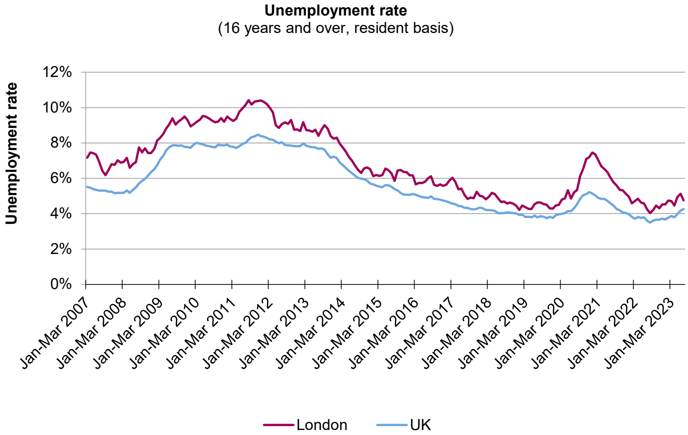
Source: Transport for London
Latest release: September 2023, Next release: October 2023



London's unemployment rate has been rising slowly, but remains low

- Around 236,000 residents 16 years and over were unemployed in London in May – July 2023.
- The unemployment rate in London was 4.8% in that period, slightly higher than in the previous quarter, February – April 2023, of 4.5%.
- The UK's unemployment increased from 3.8% in February – April 2023 to 4.3% in May – July 2023.

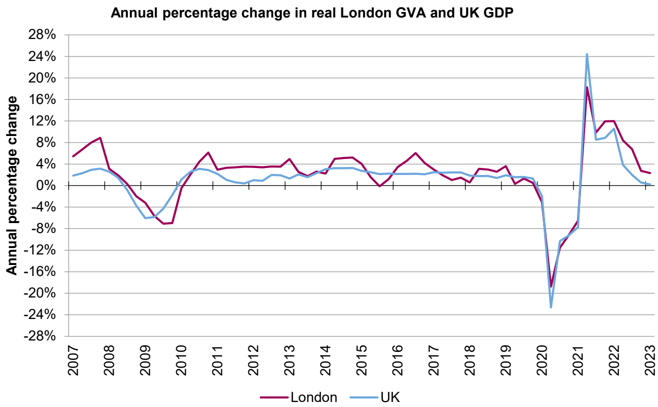
Source: ONS Labour Force Survey
Latest release: September 2023, Next release: October 2023



London's economy had surpassed pre-pandemic levels of output by Q4 2021, and continued to grow to Q1 2023

- By Q1 2023 London's GVA was 4.5% above its pre-pandemic level (Q4 2019), and UK GDP was 0.5% below.
- London's real GVA was unchanged in Q1 2023 - compared with Q4 2022 - after increasing by 0.1% in the previous quarter.
- The UK's real GDP growth rate increased by 0.1% in Q1 2023 – compared with Q4 2022- after increasing by 0.1% in the previous quarter.
- 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 is more robust.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012, and from Q4 2022 onwards have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which has not published quarterly estimates for London's real GVA for the other periods.

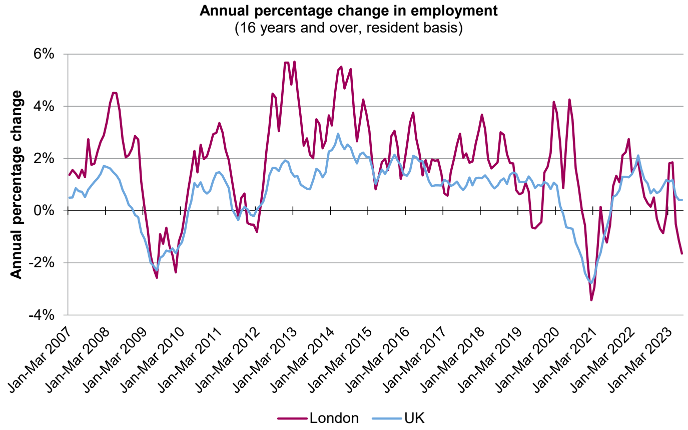
Source: ONS and GLA Economics calculations
Latest release: August 2023, Next release: December 2023



London's employment year-on-year fell in the quarter to July 2023

- Around 4.7 million London residents over 16 years old were in employment during the three-month period of May – July 2023.
- The rate of employment growth was -1.6% in the year to this quarter, lower than the growth in the previous quarter to April of 1.8%.
- The UK's employment grew by 0.4% year-on-year in the most recent quarter, slower than the rate of 1.2% in the previous quarter.
- London's labour market remains a conundrum. Evidence from a range of sources is that labour demand is weakening, although the estimated pace and degree of the weakening varies across data sources. The data reported here shows an earlier and stronger weakening than other sources, perhaps partly reflecting the underlying volatility due to comparatively small sample sizes in this data.

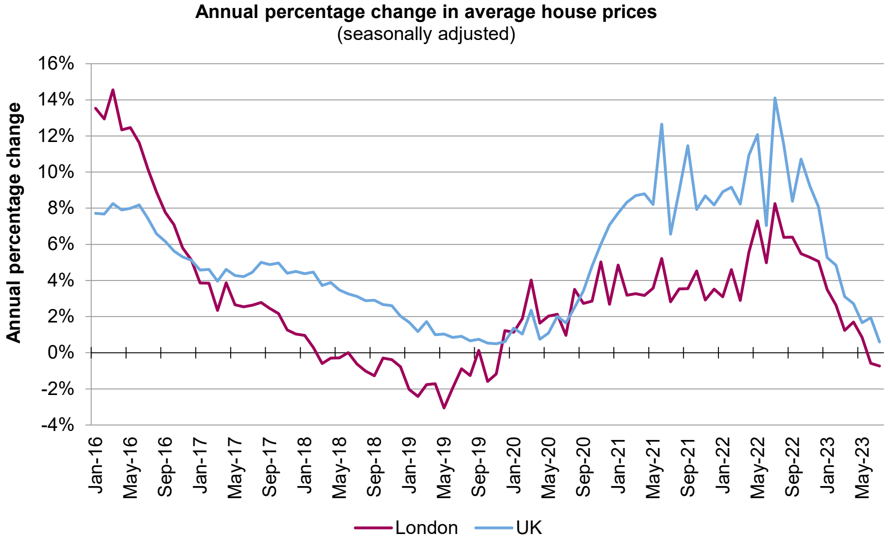
Source: ONS Labour Force Survey
Latest release: September 2023, Next release: October 2023



Annual house price growth in London remained negative in July

- In July 2023, the average house price in London was £527,000 while in the UK it was £285,000.
- Average house prices in London fell by 0.7% year-on-year in July, lower than the fall of 0.6% in June.
- Average house prices in the UK rose by 0.6% on an annual basis in July, lower than the rate of 1.9% in June.

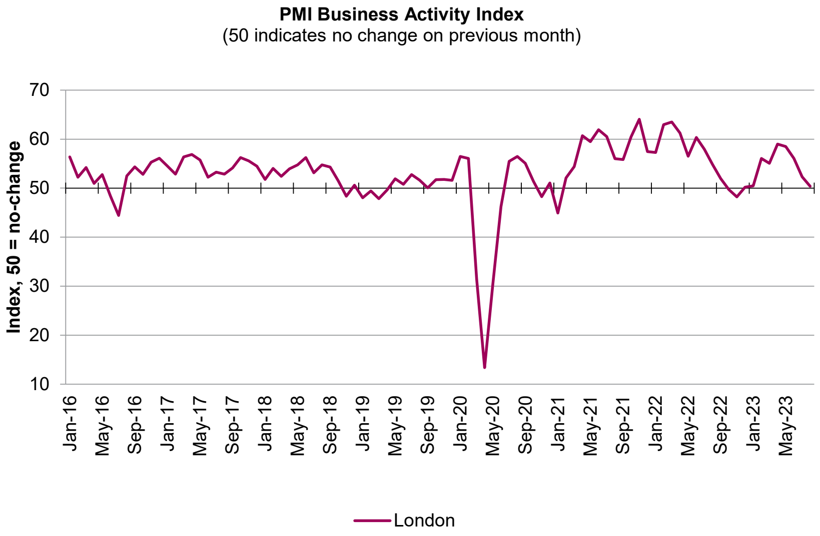
Source: Land Registry and ONS
Latest release: September 2023, Next release: October 2023



In August, the sentiment of London's PMI business activity index just remained positive but decreased

- The business activity PMI index for London private firms decreased from 52.3 in July to 50.4 in August.
- 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.

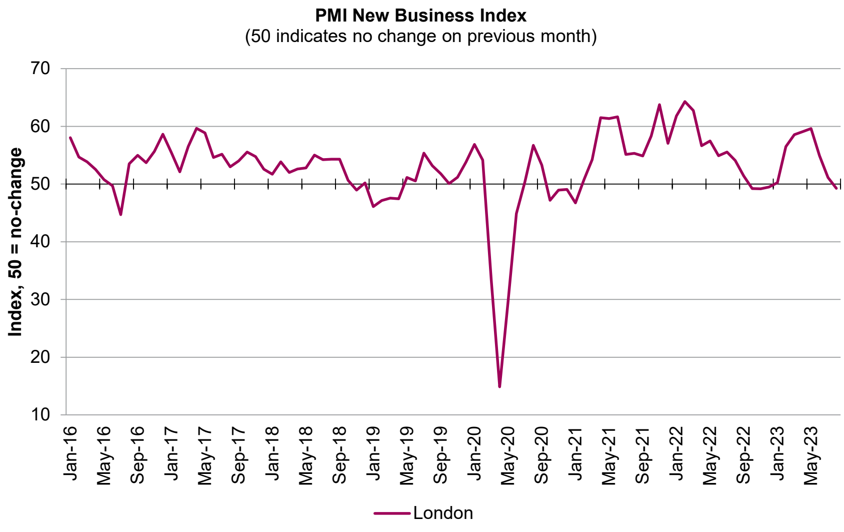
Source: IHS Markit for NatWest
Latest release: September 2023, Next release: October 2023



In August, the sentiment of London's PMI new business activity index decreased, and went slightly negative

- The PMI new business index in London decreased from 51.2 in July to 49.3 in August.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

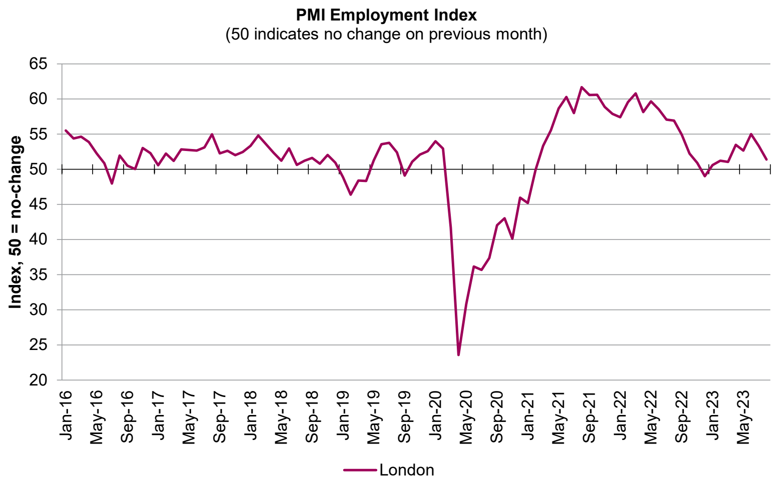
Source: IHS Markit for NatWest
Latest release: September 2023, Next release: October 2023



In August, the sentiment of the PMI employment index in London remained positive but decreased

- The Employment Index for London decreased from 53.3 in July to 51.4 in August.
- 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.

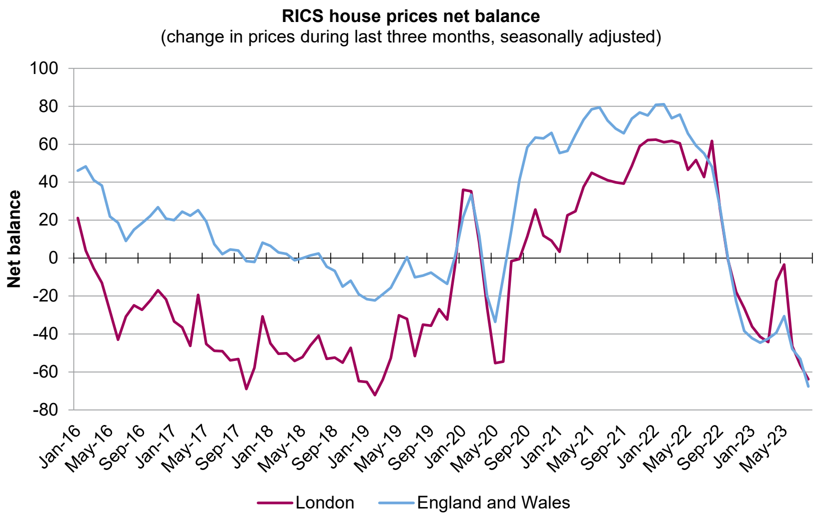
Source: IHS Markit for NatWest
Latest release: September 2023, Next release: October 2023



The number of property surveyors in London reporting house price falls in August increased

- In August, more property surveyors in London reported falling prices than rising prices. The net balance index was -64 and in July it was -56
- For England and Wales, the RICS house prices net balance index worsened from -53 in July to -68 in August.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

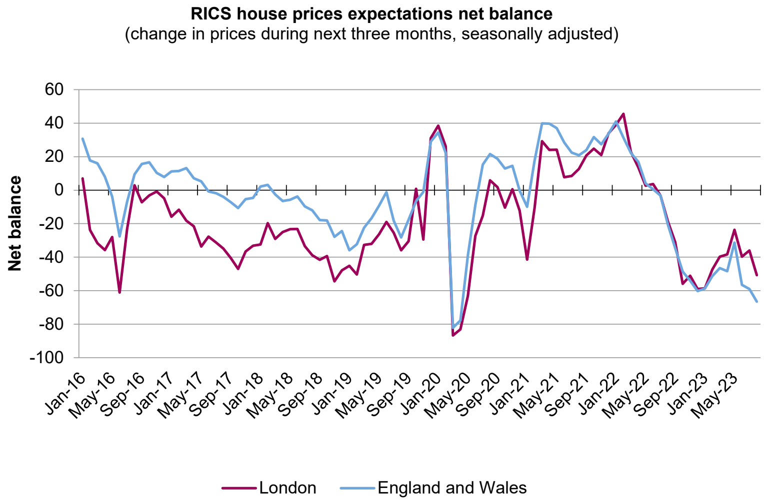
Source: Royal Institution of Chartered Surveyors
Latest release: September 2023, Next release: October 2023



In August, net expectations for house prices in London for the next three months remained highly negative, according to surveyors

- The net balance of house price expectations in London was -51 in August, a decrease from -36 in July.
- The index for England and Wales was -59 in July and decreased to -67 in August.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

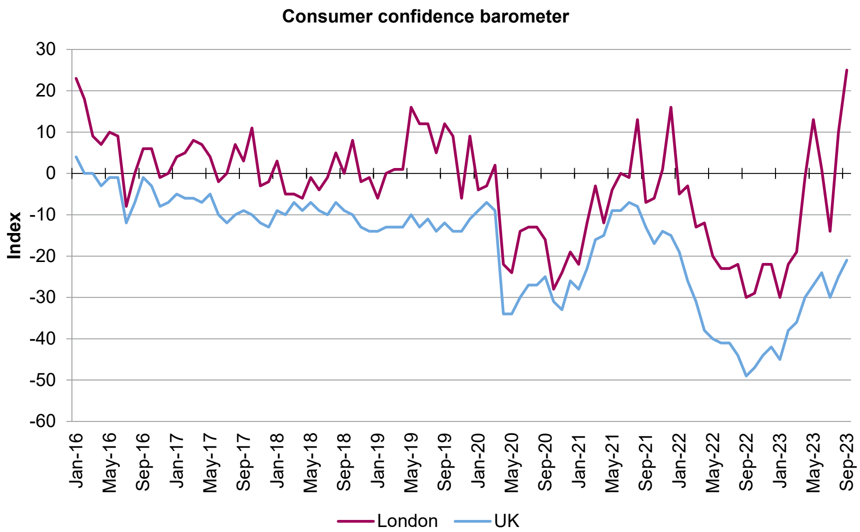
Source: Royal Institution of Chartered Surveyors
Latest release: September 2023, Next release: October 2023



Consumer confidence in London remained positive and improved noticeably in September

- The consumer confidence index in London increased from 10 in August to 25 in September.
- The sentiment for the UK improved slightly from -25 to -21 over the two months. 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: September 2023, Next release: October 2023



The impact of ending tax-free shopping on the UK and London economies

By **Adam Yousef**, Senior Economist

Introduction

It is widely known that the tourism sector contributes considerably to the UK and London economies. Few events illustrate the extent of this impact better than the COVID-19 pandemic, which led to a series of restrictive lock-down measures that impacted severely on domestic and international tourism to London and the rest of the UK.

In the UK context, the picture is further complicated by a series of challenges related to the 2016 Brexit referendum, such as the ensuing political and economic uncertainty and the depreciation of Sterling. Another issue that is not cited as frequently is the UK's decision to end its tax-free shopping scheme for international tourists- a decision that took effect on January 1, 2021. The UK ended a scheme (known as 'VAT-RES') that allowed international tourists to claim the value-added tax on items purchased during their stay in the country.

This supplement provides the context behind the UK government's decision, before discussing its potential implications for both the UK and London economies.

Background Information

Tax-free shopping (TFS) is an arrangement whereby products bought but not consumed in the country of purchase are VAT-free. This can happen either via the product being tax-free at the point of purchase, or via the buyer having to obtain a VAT refund after buying it[1]. There are also restrictions on the types of goods that qualify for the relief[2]. The sales tax may be in the form of a goods and services tax (GST), value added tax (VAT), or consumption tax.

1 Wang T and Stewart M. The law and policy of VAT tourist tax refund schemes: A comparative analysis (PDF; Working Paper 19/2021), Tax and Transfer Policy Institute, November 2021
2 Ibid.

Unlike duty-free shopping (which allows consumers to buy products that would normally have excise tax on them tax-free and is usually found only at international terminals such as airports), TFS applies to the GST/VAT/consumption tax component only, and can apply to purchases made in high streets within a jurisdiction as well as at international travel points.

Several countries implement TFS schemes. A 2021 study by the Australian National University found that 63 countries globally, including the 27 EU member states, apply a TFS scheme[3]. EU member states are required to implement a TFS scheme under Article 147 of Council Directive 2006/112/EC (the EU VAT Directive)[4].

The UK was governed by this obligation until 31 December 2020. Under this arrangement, if a person lived outside the EU and travelled to the UK for leisure or business, they were eligible for a VAT refund on items purchased in the UK. The VAT-refund scheme was called the Retail Export Scheme (VAT RES), or tax-free shopping in colloquial terms. Under the UK's VAT RES scheme, international visitors to the UK could reclaim the VAT they paid on goods that have been purchased but not consumed in the UK.

Why VAT RES was terminated by the UK government

In a move that coincided with the end of the Brexit transition period, the UK government ended VAT RES effective 1st January 2021. In September 2020, it explained its rationale for ending the scheme as follows[5]:

- VAT RES was not the only scheme through which WTO rules and OECD guidelines on paying tax in the country of consumption could be fulfilled. In other words, the officials did not see any risk in ending the scheme when it comes to international guidelines and rules on payment of consumption-related taxes.
- The impact of the scheme across the UK was unclear, and data suggested that a majority of purchases under the scheme happened in London and in Bicester Village. According to the officials, this would indicate that the scheme did not benefit the whole of the UK equally. The Government argued VAT RES was "a costly system to maintain with unclear economic benefits, and [...] burdensome for exit points"[6].
- Concerns were raised about the administrative difficulties of VAT RES.
- It was argued that there was a risk that fraud and non-compliance would increase if VAT RES was extended to passengers travelling to the EU[7].

That being said, it is worth noting that VAT-free shopping is still available where a retailer ships goods out of the country at the time of purchase[8]. However, this raises questions about whether such an option would inconvenience tourists.

Government estimates of economic impacts of terminating VAT RES

When forecasting the impact of terminating VAT RES, the OBR said that VAT refunds worth about £500 million had been given via the scheme in 2019[9]. It did also note, however, that while terminating the scheme would generate revenue for the Treasury, it could also lead to reduced shopping by international tourists, especially for luxury items. The OBR forecast that terminating VAT RES would generate a £1.8b saving to the Treasury by the 2025/26 fiscal year, whilst adding the caveat that the figures are highly uncertain[10].

3 Ibid.
4 EUR-Lex - 02006L0112-20200101 - EN - EUR-Lex (europa.eu)
5 HM Treasury and HMRC, A consultation on the potential approach to duty- and tax-free goods arising from the UK's new relationship with the EU: Summary of responses (PDF), GOV.UK, September 2020.
6 Ibid.
7 Ibid.
8 Tax on shopping and services: Tax-free shopping - GOV.UK (www.gov.uk)
9 https://obr.uk/docs/dlm_uploads/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf
10 Ibid.

Ascertaining economic impacts of terminating VAT RES

A key challenge to the OBR analysis (typically highlighted by opponents of the government's decision as well as other economic forecasters (e.g., Oxford Economics)) is that the work did not examine the impact of TFS schemes on retail expenditure and its broad multiplier effects (e.g., increased economic activity in other sectors beyond retail – for example tourism, and more job retention and creation). For instance, Oxford Economics' modelling of the decision's impacts suggests that the re-introduction of VAT RES will have a significant positive effect in terms of GDP, tax yield, and job creation[11].

Economic theory suggests that tax-free schemes boost retail spending by tourists[12]. By extension, the increase in consumer spending would increase a country's GDP and stimulate job creation. Various studies suggest that these effects extend beyond the directly-affected sectors (e.g., tourism and hospitality) to include other sectors (which would form part of the supply chains for items tourists purchase) and regions (as supply chains tend to be dispersed).

As the UK ended the scheme relatively recently, data on the effects is limited. Moreover, the COVID-19 pandemic's impact on global tourism complicates the picture. Nevertheless, there is recent data that would suggest that the UK is losing out economically to rival jurisdictions as a result of the decision to end VAT RES. The case for the detrimental impact of this decision (and thus, to reinstate tax-free shopping) can be divided into several categories (see table below):

Impact	Detail
Ending VAT RES diverts tourist spending away from UK to EU/other destinations, leading to foregone Exchequer revenue	• Higher-income tourists are conscientious shoppers who are price sensitive. Other things equal, they would visit and shop in jurisdictions that offer a tax refund. • Exchange-rate movements can't explain the reduced tourist shopping in the UK since 2021. For example, Chinese shoppers are a sizable constituency; the Chinese Renminbi weakened from 2019 to 2023 vs. the Euro, while US$, AED (UAE Dirham), SAR (Saudi Riyal), SGD (Singapore Dollar) and HKD (Hong Kong Dollar) remained virtually at the same level compared to the Euro.
UK shoppers are taking advantage of EU TFS schemes to shop in the EU instead of the UK	• UK shoppers are entitled to claim tax refunds if buying items in Europe, saving them money.
Lower tourist spending in the UK harms London's and the UK's broad tourism eco-system	• Tourists do not only spend money on luxury items and retail when visiting the UK: they stay in hotels, eat at restaurants, visit attractions, etc. All these amenities will experience a drop in their revenues from lower tourist spending.
Lower tourist spending leads to employment losses across the supply chain and drives international brands out of the UK	• Supply chains to manufacture goods in the UK tend to be integrated across multiple industries and spread across different regions. Lower spending in one sector would likely impact other sectors and regions of the country. Moreover, economic theory demonstrates that higher taxation and bureaucratic red-tape deter long-term capital investment by businesses. Other things equal, this undermines business expansion, job creation, and economic growth.
By ending VAT RES, the UK goes against the large majority of fellow OECD countries.	• 32 out of 38 OECD countries already have VAT refund schemes in place, while others (e.g., Canada) are strongly considering introducing their own schemes. • For an economy that is reliant on tourism and hospitality, the UK risks disproportionate damage from adopting the opposite approach.

11 Oxford Economics, Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail (AIR), November 2022.
12 Dimanche (2003).

Summary of recent data findings

- According to Global Blue, the world's largest strategic technology and payments partner within the Tax-Free Shopping, Payment and RetailTech ecosystems, the recovery in tourist spending during 2022 vs pre-pandemic trends has been much lower in the UK than France, Italy, and Spain. Moreover, GCC (Gulf Cooperation Council) tourist spending **in these EU countries is at least 1.5x pre-pandemic levels**, but is **less than 0.7x for the UK**.
- Global Blue data also shows that **almost 10% of UK spending in 2019 has already been relocated to the EU27 by international shoppers**. Meanwhile, Non-EU/UK shoppers who used to shop in the UK and EU27 in 2019 **have increased their tax-free spending in the EU27 in 2022 by 30%**.
- Chinese tourists typically **represent 22% of tourist spending in the UK annually**. In a recent Global Blue survey, the UK was shown to be **the least favoured destination for Chinese tourists** among the large five European countries for their future trips. Moreover, **only 42% of Chinese people planning to visit Europe in the next 12 months are planning to visit Britain**, down from **over 70% in 2019**.
- Approximately **€500M was spent by UK shoppers** in Continental Europe in 2022, representing **an increase of about 200% vs. 2021 (£160M)**.
- According to Value Retail, The Dorchester Group has just announced that **its London hotel is underperforming its Paris hotel**, which they attribute purely to the end of VAT RES. Meanwhile, **Mulberry** has just announced the **closure of its Bond Street store** due to the ending of tax-free shopping.
- According to the New West End Company, **57% of all West End spend was international in 2019, compared to 44% in 2023. 71% of their international visitors** said they would spend more if they could claim back VAT on their purchases. This proportion **increases to 93% for the highest-spending customers**.
- The **Canadian government is considering its own TFS scheme**, and commissioned a study by CEBR to forecast potential economic impacts. The study revealed that **a TFS scheme could have increased 2019 GDP by CAD 810 million**. In terms of labour market benefits, the boost to visitor spending would support **an additional 32,100 jobs in the travel and tourism industry and its supply chains**. This would bring **a potential net gain of CAD 127 million in overall tax revenue**. Equivalently, **for each dollar lost through lack of VAT, CAD 1.90 would be recouped in other taxes**. The estimate of total additional tourist spending due to TFS is **CAD 407 million**.

Final considerations

During 2023, several media and retail-led campaigns were started to reinstate VAT RES. For example, in August, the Mail on Sunday stated that 350 brands, including Harrods, Marks & Spencer, Burberry, and Harvey Nichols, had backed its campaign, alongside 40 Conservative MPs[13]. It's also worth noting that should the UK reinstate VAT RES, it would become the only major European country where EU residents could shop tax-free, opening-up a whole new market for regional airports and the areas they serve.

Therefore, it is safe to suggest that the impact of terminating VAT RES extends beyond a few London-based luxury retailers: it will negatively affect a broad range of London's business population and workforce, in addition to suppliers and manufacturers across the whole of the UK - with long-term economic costs that would far outweigh any short-term accrued savings.

13 https://www.dailymail.co.uk/news/article-12005245/Business-leaders-call-Chancellor-Jeremy-Hunt-reinstate-tax-free-shopping-overseas-visitors.html

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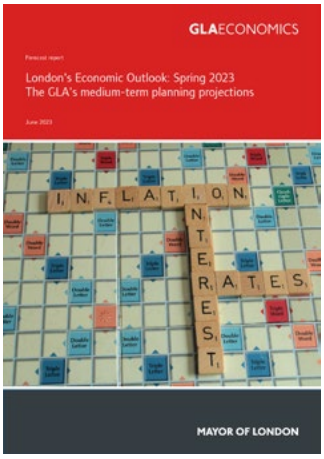

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