GLAECONOMICS

Forecast report

London's Economic Outlook: Autumn 2021
The GLA's medium-term planning projections

December 2021

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1. Executive summary

GLA Economics' 39th London forecast[1] suggests 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.
- London is forecast to see a modest rise in the number of workforce jobs[2] in 2021 (0.2% in annual terms) although this will recover in 2022 (2.1%) before easing off in 2023 (1.2%).
- Similarly to GVA, London's household income and expenditure are both forecast to grow in all years of the forecast period.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. Given the unprecedented uncertainty resulting from the current COVID-19 crisis, the forecasts presented in this document should be interpreted as a projection of our reference scenario – i.e., the most likely scenario under GLA Economics' criterion – for London's economy in the medium-term.

Table 1.1: Summary of economic forecasts under GLA Economics reference scenario

Annual growth rates (per cent)	2020[3]	2021	2022	2023
London GVA (constant 2018, £ billion)	-7.1%	6.4%	5.0%	3.1%
Consensus (average of independent forecasts)		6.1%	5.6%	2.3%
London workforce jobs	-2.1%	0.2%	2.1%	1.2%
Consensus (average of independent forecasts)		-0.4%	1.6%	1.5%
London household expenditure (constant 2018, £ billion)	-11.2%	6.0%	7.1%	2.4%
Consensus (average of independent forecasts)		5.1%	6.3%	2.5%
London household income (constant 2018, £ billion)	1.4%	1.0%	0.5%	2.6%
Memo: Projected UK RPI[4] (Inflation rate)	1.5%	3.7%	5.2%	3.7%
Projected UK CPI[5] (Inflation rate)	0.8%	2.4%	4.0%	2.6%

Source: GLA Economics' Autumn 2021 forecast

The UK economy is still recovering from the historic economic crisis of the COVID-19 pandemic. In July the Government lifted the unprecedented restrictions on freedom of movement and economic activity imposed over the previous year and in particular after the spike in infections that started in December 2020. The impact of the first lockdown and subsequent easing are covered in the Autumn 2020 LEO[6]. The Spring 2021

[1] The forecast is based on judgements and a recently updated econometric model built by GLA Economics. For more details see 'The new GLA Economics forecast models for London's economy, GLAE Working Paper n°98, June 2020'.
[2] Unless stated otherwise, any reference to jobs in the main text refers to workforce jobs.
[3] Historic data for London's real GVA and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics forecast data.
[4] RPI = Retail Price Index. Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2021). '[Forecasts for the UK economy: a comparison of independent forecasts]', November 2021. Data for 2020 is from the ONS and GLAE estimates, [Inflation and price indices - Office for National Statistics].
[5] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London. Instead the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2021). '[Forecasts for the UK economy: a comparison of independent forecasts]', November 2021. Data for 2020 is from the ONS and GLAE estimates, [Inflation and price indices - Office for National Statistics].. Since December 2003, the Bank of England's symmetrical inflation target is annual CPI inflation at 2%.
[6] GLA Economics (2020). '[London's Economic Outlook: Autumn 2020]'. 7 December 2020.

LEO[7] covers the second and third lockdowns. Further, more limited, restrictions, have been introduced at the end of November 2021, and early December, to tackle the Omicron variant of the Coronavirus. At the time of writing it is believed this variant spreads more rapidly than the Delta variant, although its impact on hospitalisation rates is not well known. Other things equal an increase in prevalence of the virus will increase hospitalisations, and so the Government has introduced restrictions which will impact adversely on leisure activities, and other sectors such as Real estate and Construction. The forecast has been produced on the basis that there will be no further restrictions, and that, reflecting the experience of earlier restrictions, there will be minimal effects on other sectors. It is a downside risk to the central scenario that the Government may introduce further restrictions.

The ongoing global pandemic is a major negative economic shock the size of which has not been seen in centuries. After contracting by 19.6% in the second quarter of 2020 the UK economy grew in the second half of 2020 despite a second lockdown before contracting by 1.4% in the first quarter of 2021 following a third lockdown according to the Office for National Statistics (ONS)[8]. Following another recovery UK GDP remained, by Q3, 2.1% below its pre-pandemic level[9]. The Accommodation and food services sector recovered strongly over the most recent period so that it had recovered its pre-pandemic level of output. While, this is also true of much of the rest of the economy, there were other parts which were still struggling such as Arts, entertainment and recreation, Transportation and storage and Other services which were still 5%, 10% and 20% below their pre-pandemic levels of output respectively. Jobs have been lost during this downturn, but given the size of the decline in GDP the rise in UK unemployment has been contained so far, with the unemployment rate rising to 5.2% in the last quarter of 2020, before declining to 4.3% in the third quarter of this year[10]. This is due largely to the Government's Coronavirus Job Retention Scheme, commonly known as the furlough scheme, which finished at the end of September 2021. In London there were 231,000 employments furloughed at 30 September 2021, the highest take up rate in the UK. It is likely that there have been relatively small job losses after the end of the furlough – in October London resident payrolled employees continued to rise, although they still remained 0.6% below pre-pandemic (February 2020) levels[11]. Public finances have also deteriorated markedly. The Government has spent £378bn in direct support to the economy since March 2020[12].

The unprecedented measures introduced by the Government to support the economy through the pandemic, and described in the Spring 2021 London's Economic Outlook (LEO)[13], have mostly unwound. The quantitative easing and lowering of interest rates by the Bank of England remain mostly in place, although gentle interest rate rises are expected to counter rising inflation, and bring it back to a stable path. Most forecasters have the view that these measures have had a positive impact on economic activity, although concerns remain for the long-term prospects of the economy, as Box 3.1 discusses at more length. There has been a rapid recovery in the economy this year, supported by a successful vaccine roll-out, and the Bank of England (BoE) expects it to return to pre-pandemic levels in the first quarter of next year[14]. However, there are risks to the economy from rising inflation, job market mismatches, and supply chain disruption. The prospect of long-term economic scarring caused by the pandemic cannot be discounted, and the Office for Budget Responsibility (OBR) has estimated this at 2% of GDP[15].

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7 GLA Economics (2021). 'London's Economic Outlook: Spring 2021'. 25 May 2021.
8 ONS (2021). 'GDP first quarterly estimate, UK: July to September 2021'. 11 November 2021. ONS publishes more timely monthly GDP estimates, but as they are a less complete measure they have not been reported here.
9 Ibid.
10 ONS (2021). 'Labour market overview, UK'. 16 November 2021.
11 Ibid.
12 HM Treasury (2021). 'Autumn Budget and Spending Review 2021 documents'. 27 October 2021.
13 GLA Economics (2021). 'London's Economic Outlook: Spring 2021'. 25 May 2021.
14 BoE (2021). 'Monetary Policy Report – November 2021'. 4 November 2021.
15 OBR (2021). 'Economic and fiscal outlook – October 2021'. 27 October 2021.

Looking at London, our forecasts and the available economic indicators up to the point of writing suggest that the downturn in economic output is slightly less negative than the national one in this crisis[16]. However, the rise in unemployment in the capital has been significantly higher than at a national level. The unemployment rate in the capital started to rise from 4.3% in Q4 2019 to 7.2% in the last quarter of 2020, falling to 5.6% in the third quarter of 2021. Although the full effects of the withdrawal of government support schemes is not yet known the picture on indicators is generally positive despite challenging economic circumstances. All PMIs – business activity, new business, and employment – have stood at positive levels since March 2021 indicating growth after experiencing historic falls in 2020. House price expectations have remained positive and house prices have continued to rise, while there are tentative signs of some improvement in consumer confidence – despite being negative since the start of the crisis it has been positive in a couple of months since the Spring. Given this background, the GLA Economics reference scenario for London sees London's output recovering markedly this year and into next year before growth slows in 2023. The recovery in employment is expected to be slower than in output (see Figures 1.1 & 1.2 and Chapter 5 for more detail). In particular, the forecast is for real GVA in London to return to its pre-crisis levels – i.e., Q4 2019 – in Q1 2022 while workforce jobs will take until early 2023 to return to its pre-crisis levels (Figure 1.3). Our forecast assumes that some of London's local characteristics might become a comparative advantage in this crisis. Specifically, some of London's main sectors – Financial services, Real Estate, Professional & technical activities and Information & communications activities – have been hit less severely by lockdown restrictions and have a relative greater proportion of workers being able to work from home. However, these positive effects might be offset by other features such as the high reliance of London workers on public transport – who may be reluctant to use transport at pre-pandemic levels – and a very negative shock in terms of tourism and international students in the capital. There may also be a large and persistent negative shock for certain sectors such as Accommodation & food services, Arts, entertainment & recreation, Transportation and storage, and Other services – the loss of commuting and tourism to the capital is likely to mean that the Accommodation and food services sector has not recovered to the degree it has for the UK.

The expected path for recovery of both London and the UK economies is tied to a high level of uncertainty linked to the incidence and health impact of the Coronavirus. The unknown effects of the Omicron variant as it spreads around the globe heightens this uncertainty. The strength of the recovery this year after a successful vaccine roll-out demonstrates that it is a public health crisis rather than an economic crisis - although the downside risks of the economic dimensions of rising inflation, job mismatches, and supply chain blockages are increasingly becoming apparent, as set out in Box 3.1. There remains a risk until there is immunity across the world from the spread of further new variants.

Beyond this, another risk to the UK economy (and therefore to this forecast) continues to be the impact of Brexit. There has been an acrimonious start to the implementation of the Trade and Cooperation Agreement (TCA), and there are other areas where disputes might flare up, which without careful management might lead to a trade war. The agreement does not cover the service sector, which represents 90% of London's economy. Given the importance of London's service exports to the EU, the UK's future relationship with the block in this regard will have a significant impact on London's economic outlook. The introduction of non-tariff barriers (NTBs) may well also affect London's export-oriented service sectors in the long term, with evidence at a national level of their short-term disruption. Adverse effects from the restructuring of the economy are likely to continue over a period of years – the Office for Budget Responsibility (OBR) reports[17] using trade data for this year that the long-term negative impact of Brexit on the economy may be 4% lower

[16] GLA Economics has been using ONS quarterly regional GDP estimates as its preferred measure for the state of London's output. This data is available to Q1 2021. In the last few months the ONS has released model-based early estimates of regional gross value added in the regions of England and Wales which is available to Q3 2021. This data is experimental and less established.
[17] OBR (2021). 'Economic and fiscal outlook – October 2021'. October 2021.

output than against a base case of EU membership. For businesses that are also facing COVID-19, Brexit further increases costs both in domestic and overseas markets (Box 3.2 says more on these issues).

The other main UK risk is to the public finances from the borrowing needed to support public services and the economy through the COVID-19 crisis. As the Bank of England (BoE) has lowered interest rates and kept them low since last year, debt servicing costs are lower than they were prior to the pandemic. Inflationary pressures are expected to result in the BoE raising interest rates, and if this continued debt financing costs may become unsustainable. This would be exacerbated if there were another shock to the economy. The Government would need to reduce spending, raise taxes, or both, with adverse effects for economic growth and investment. This brings with it a risk of stagflation of low growth and high inflation. Although it should be noted at the moment the expectation is for interest rates to rise gradually with this having a limited impact on debt financing costs.

Outside of COVID-19 and the ongoing fall out from Brexit, other global risks continue with potential effects on London's economy. Firstly, there is a serious possibility of an increase in global protectionism which could be damaging to trade flows, or there might be a contraction of supply chains to make them more resilient. Secondly, the UK's labour productivity growth remains weak and it is not expected to improve in the medium term due to the current crises and may be further damaged by long-term scarring from the pandemic. Thirdly, although geopolitical risks are generally lower, an intensification of the current regional conflicts in the world cannot be discarded. Finally, the international economic context remains highly volatile at this moment as well. Structural problems and macroeconomic imbalances remain in the Eurozone and the pandemic may speed up the manifestation of negative consequences.

The COVID-19 crisis is damaging for all economies. The US reached its highest unemployment rate since at least the start of World War 2, in April 2020[18] but has since fallen back as growth resumed, although it remains above pre crisis levels while the Federal Reserve has stimulated the economy with the most expansionary monetary policy ever seen. All of which indicates the size of the current crisis in the advanced economies, although this has eased since the end of last year for some of them. Inflation is also prevalent across the major economies, rising on an annual basis to 5.2% in Germany[19], and 6.8% in the US[20] in November. Meanwhile, emerging market economies face problems around the availability of vaccine supplies and new COVID-19 variants.

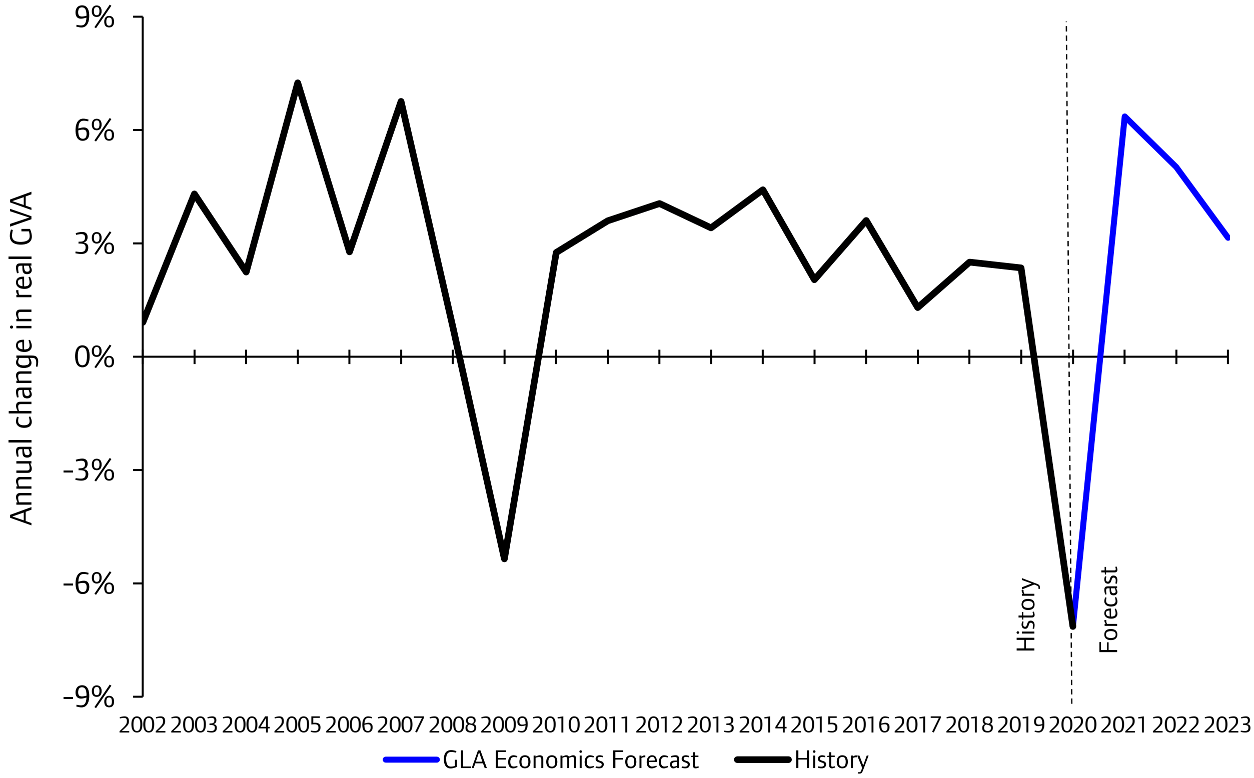
There remains a very high degree of uncertainty about the future path of the economy at the current moment. In response GLA Economics has developed and continues to use macroeconomic scenarios[21] which have been updated regularly to maintain an up-to-date view on how the economy is evolving. What is clear is that the recovery will take place over a few years. GLA Economics has also developed alternative scenarios on which it reports which are shown in Chapter 5.

In conclusion, the global economic environment remains extremely uncertain due to the ongoing COVID-19 outbreak (as shown in the evolution of our London Forecast (Figures 1.4 & 1.5)). There was a historically unprecedented drop in London's output last year but growth is expected to be strong this year (Figure 1.1). Most forecasters expect a continued bounce back into 2022, thus returning to pre-crisis levels in the medium-term (Figure 1.3). The effectiveness of the unprecedented fiscal and monetary policies put in place by national and international public authorities are mitigating some of the negative economic effects of the pandemic especially in terms of employment (Figure 1.2). All sectors should see a recovery although Accommodation and food services, Transportation and storage, Other services, and Arts, entertainment, and

[18] US Bureau of Labor Statistics (2021). 'Employment Situation Summary'. 7 May 2021.
[19] Statistisches Bundesamt (2021). 'Consumer Price Index'. 10 December 2021.
[20] US Bureau of Labor Statistics (2021). 'Consumer Price Index'. 10 December 2021.
[21] London Datastore (2021). 'Macroeconomic scenarios for London's economy post COVID-19'.

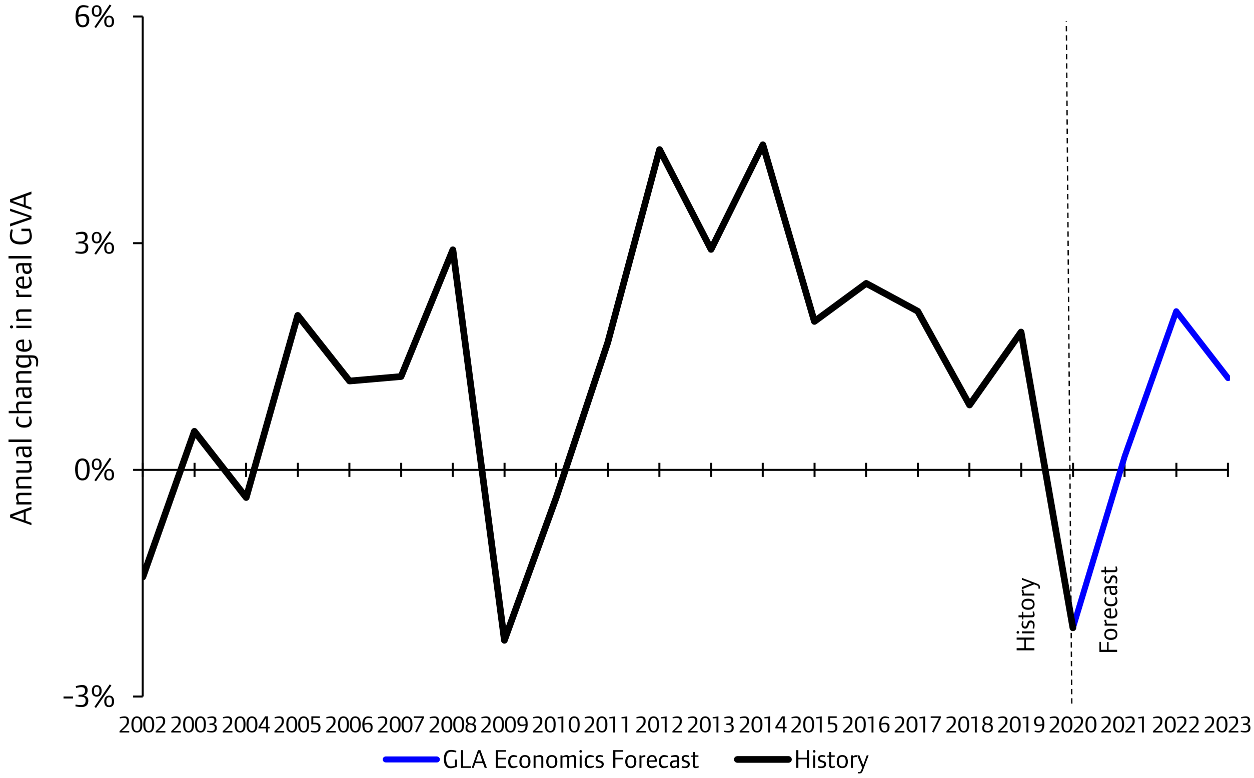
recreation will most likely continue to be the worst hit as they are the most affected by social distancing which is likely to continue in some form for part of the coming year at least. London and the UK economies have become more resilient in mitigating the economic effects of worsening COVID-19 caseloads, so the recovery in 2021 is likely to continue into 2022. However, it can be anticipated that London's economy will not recover its previous 'normality' until the global vaccination process is well advanced.

Figure 1.1: Historic and forecast output growth for London (GLA Economics reference scenario)



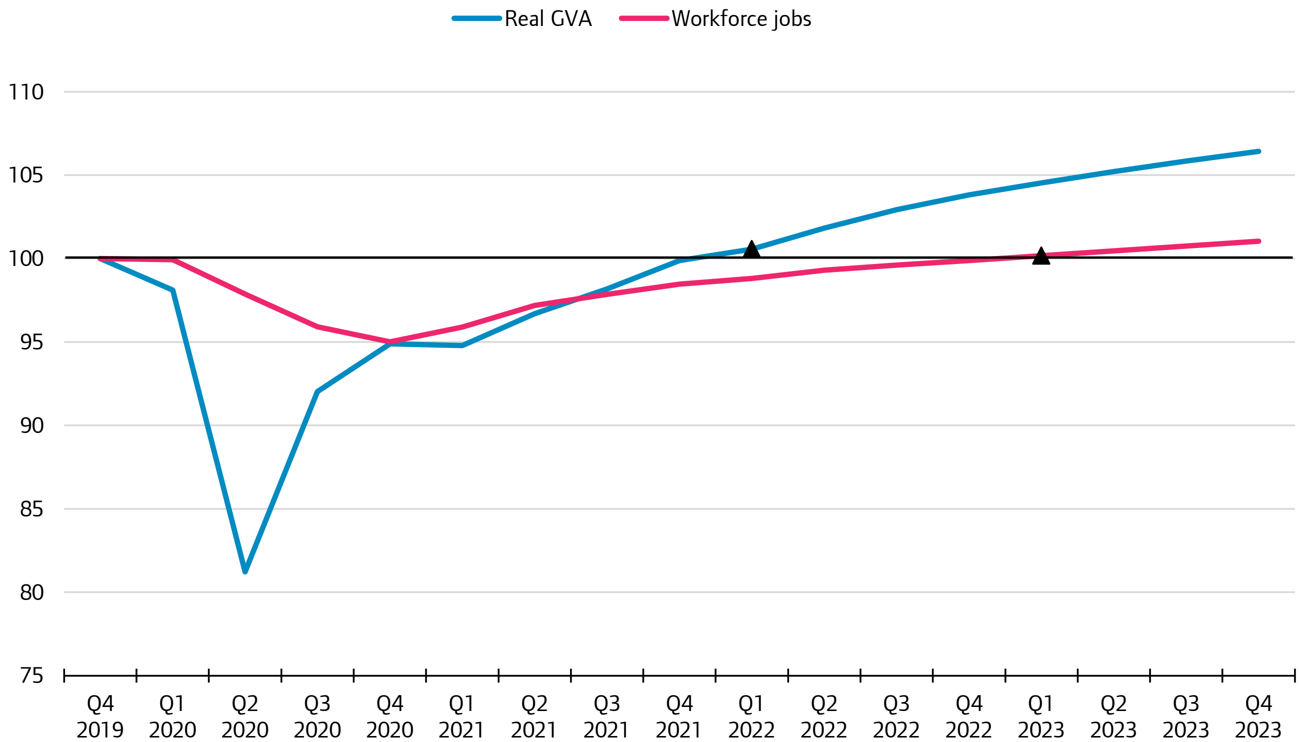
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.2: Historic and forecast employment growth for London (GLA Economics reference scenario)



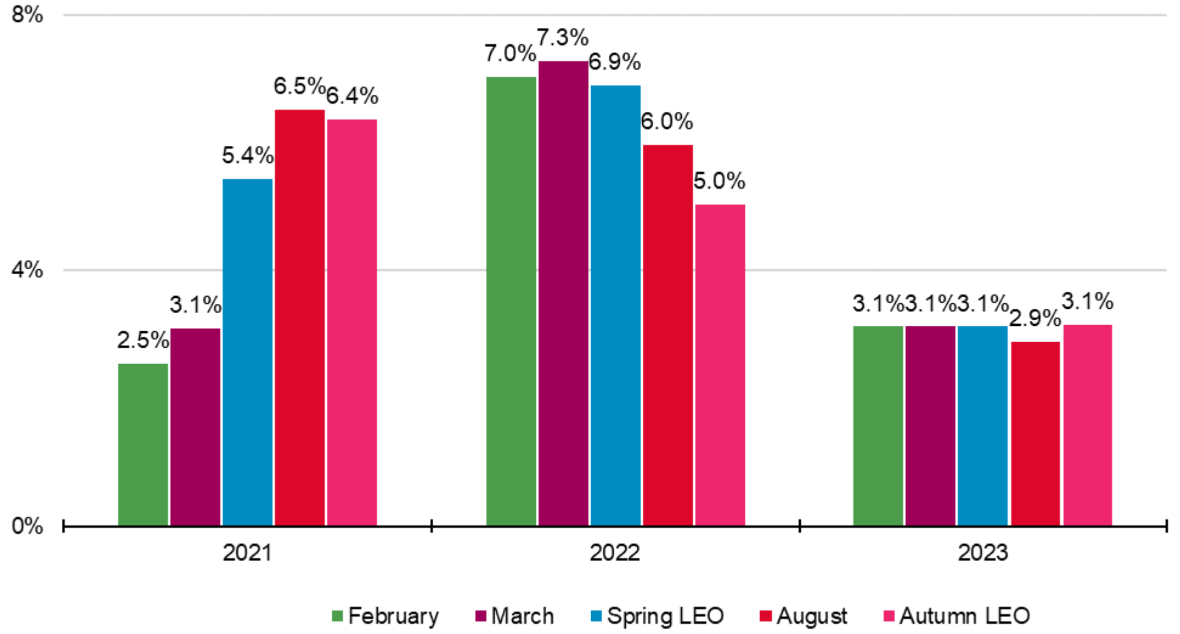
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.3: Expected shape of the economic recovery for London under the GLA Economics reference scenario (index)



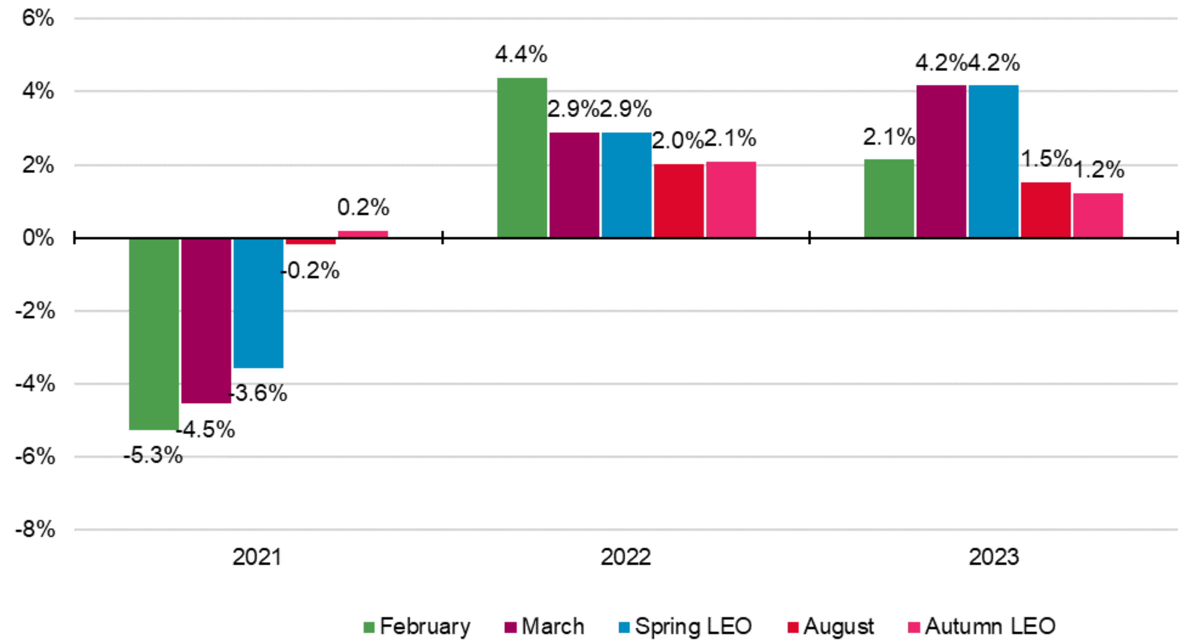
Source: GLA Economics

Figure 1.4: Development of reference scenarios for London annual real GVA growth rates 2020-2022



Source: GLA Economics

Figure 1.5: Development of reference scenarios for London annual employment growth rates 2020-2022



Source: GLA Economics

2. Introduction

The autumn 2021 edition of London's Economic Outlook (LEO) is GLA Economics' 39th London forecast. The forecasts are issued roughly every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of the recent economic conditions in London, the UK and the world economies and includes analysis of important events, trends and risks to short and medium-term growth (Chapter 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Chapter 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Chapter 5).

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast is based on an in-house model built by GLA Economics[22]. Before that, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)[23]
- Experian Economics (EE)
- Oxford Economics (OE)

Economic forecasting is not a precise science. Further, these projections unlike previous GLA Economics forecasts are a scenario consistent with the BoE's COVID-19 forecast published in November[24] and OBR scenario published in October[25] and provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen if this scenario came to pass. There are thus significant risks, mainly on the downside, associated with this scenario.

[22] The forecast model used in this forecast has updated the model described in this publication: Douglass, G & van Lohuizen, A (2016). 'The historic performance of the GLA's medium-term economic forecast model', GLA Economics Current Issues Note 49, November 2016. A description of this new forecast model can be found in Orellana, E. (2020) 'The new GLA Economics forecast models for London's economy', GLA Economics Working Paper 98.

[23] CEBR does not provide a forecast for household expenditure in London.

[24] Bank of England (2021), 'Monetary Policy Report – November 2021', November 2021.

[25] OBR (2021). 'Economic and Fiscal Outlook – October 2021', October 2021.

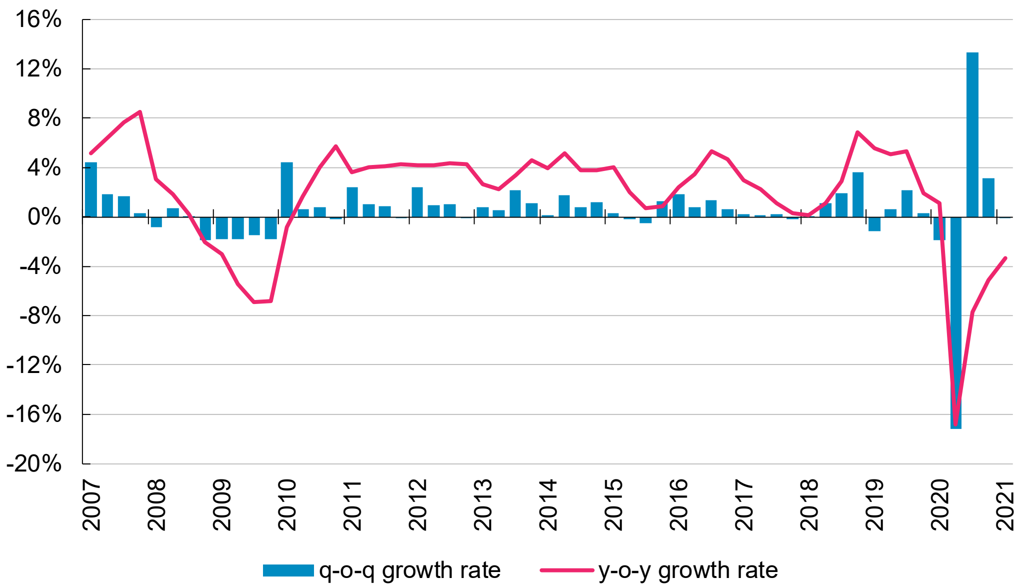
3. Economic background: London's recovery from its unprecedented economic shock continues but faces challenges in the new year

This Chapter provides an overview of recent developments in the London, UK and world economies, as well as risks to the London economy.

3.1 London's economy

According to the latest regional data by the ONS, London's economy – as measured by real gross value added (GVA) – fell by 0.1% between Q4 2020 and Q1 2021, which is equivalent to an annual growth rate of -3.4% in the first quarter of the year. As can be observed from Figure 3.1, the quarter-on-previous-quarter (q-o-q) growth rate represents a very modest contraction given the third lockdown. This is especially so when compared with the sharpest fall on record in Q2 2020 following the first lockdown. By Q1 2021 London's economy remained 5.2% below its recent pre-pandemic peak in Q4 2019. However, this shock was smaller in London than for the UK, where the quarterly growth rate was -1.4% in the first quarter of 2021. Overall, the UK economy remained 8.3% below its pre-pandemic peak in the first quarter, although since then more timely national data has shown that it has begun its recovery from this drop. This was partially because London has a relatively large services sector. In some sub-sectors there are many people who have been able to continue to work from home, which may have dampened the still large movements in output.

Figure 3.1: Real GVA in London (Q1 2007 – Q1 2021)

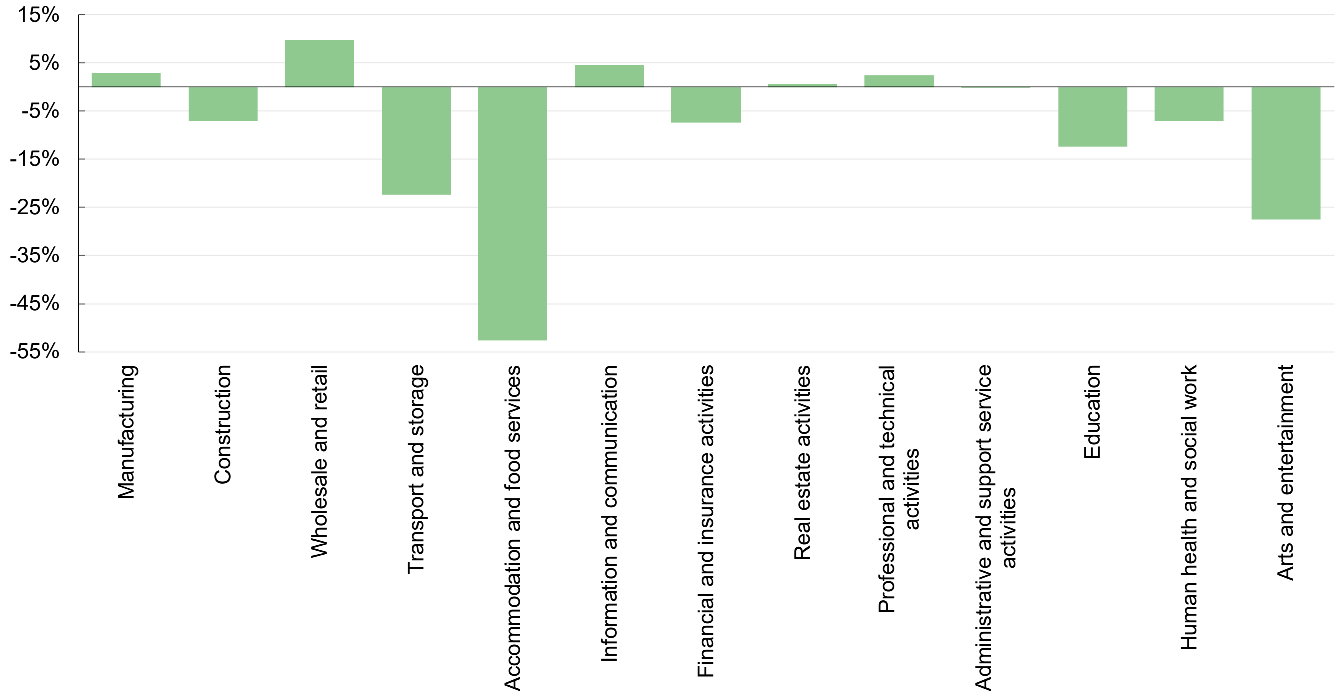


Source: GLA Economics based on ONS - UK regional GVA and GDP data.

As might be expected, the impact on output has been unevenly spread across sectors. Figure 3.2 indicates that the main four industries in terms of their contribution to output[26] – i.e., Real estate activities, Financial and insurance activities, Professional and scientific/technical activities, and Information and communication activities – all registered either a relatively small decline or growth in output in Q1 2021 compared with Q1 2020. In comparison, Arts and entertainment, Accommodation and food services, and Transportation and storage all shrank by over 20% over this period.

[26] Representing 57.6% of London's real GVA in 2018.

Figure 3.2: Proportionate change in real GVA by industry* in London Q1 2020 – Q1 2021



*Source: GLA Economics based on ONS – UK regional GVA and GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

Beyond the lockdown in the first quarter of 2021 there was first an easing and then ending of the lockdowns seen during the pandemic, although with the Omicron variant some restrictions have been reintroduced. Evidence from external forecasters[27] and our analysis of the available faster macroeconomic data for London suggest that the London and UK economies have suffered less during the last lockdown as businesses and individuals seem to have learnt to respond more effectively. For further details on the pandemic see Box 3.1.

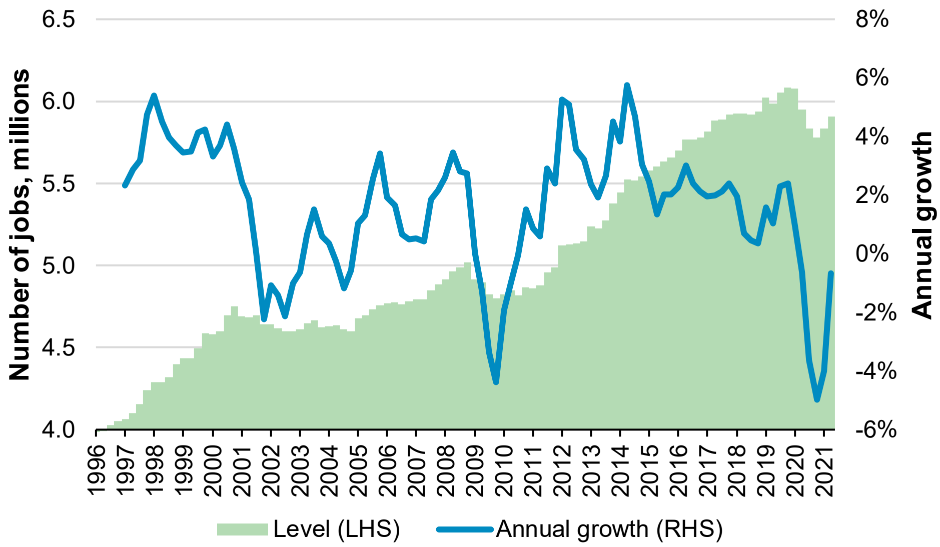
The latest data on London's labour market is for September 2021. The employment rate shows the percentage of residents aged 16-64 who are in work and stood at 75.1% in the three months to September 2021, up 0.3 percentage points on the year but still 1.6 percentage points down from the three months to February 2020. The unemployment rate shows the proportion of the 16 and over resident population who are unemployed but are seeking and available for work and stood at 5.6% in the three months to September, up 0.5 percentage points on a year earlier, but down from the seven-year high seen at the start of the year. For comparison, the UK's employment rate stood at 75.4% in the three months to September and the unemployment rate was 4.3%.

The trend in the number of jobs in London's economy has been less erratic than for output. The numbers of jobs had been falling gradually over 2020 before beginning to rise in 2021. Despite total workforce jobs rising from their low in Q4 2020, by Q2 2021 the number was 0.7% (40,000 jobs) lower than the same period a year earlier, and 172,000 jobs lower than its pre-pandemic peak (Figure 3.3). The government's furlough scheme, officially known as the Coronavirus Job Retention Scheme, is credited with keeping workers attached to their employers during the crisis and has enabled employers to give work to existing employees as the economy picked up, saving on redundancy and recruitment costs. As the economy restructures, with jobs moving into sectors which have benefited from the pandemic such as Digital

[27] See Chapter 4 of this report for more detail.

activities, it is expected that there will continue to be a loss of jobs from sectors which have done less well. It is possible that Q3 2021 data when published may show some impact on the number of jobs due to the end of the furlough scheme but so far the available data is optimistic.

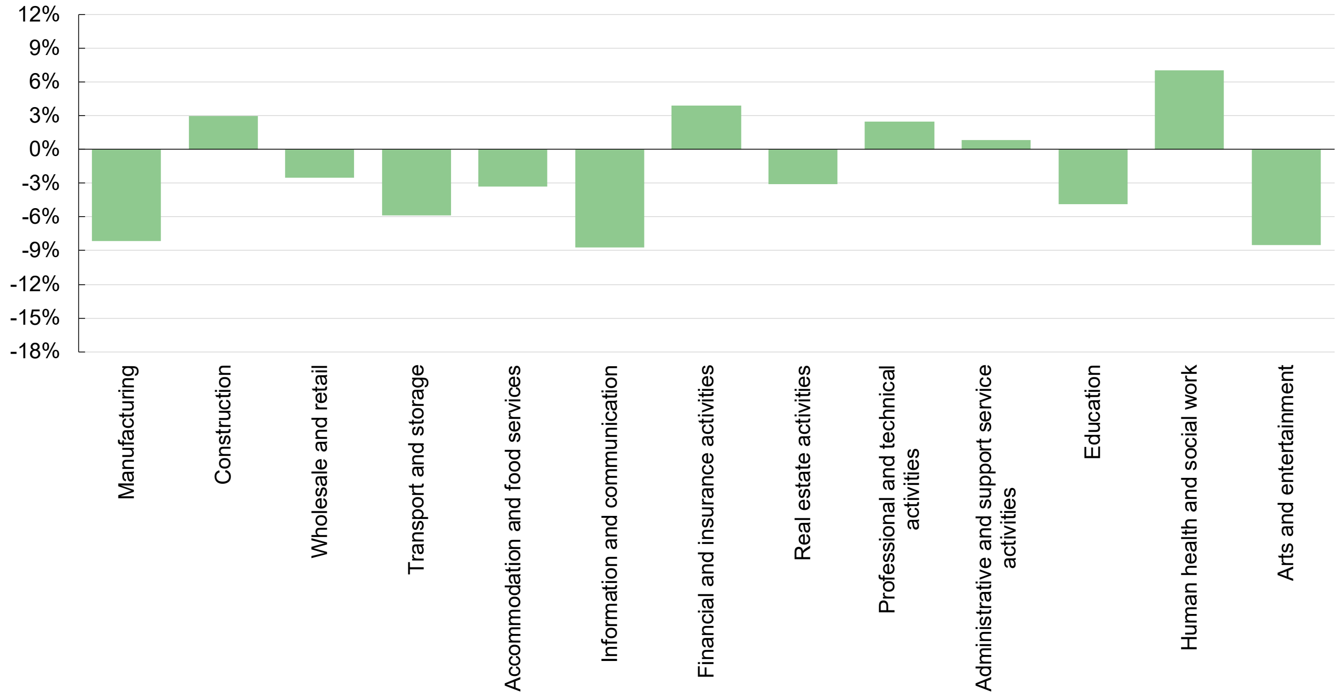
Figure 3.3: Number of workforce jobs in London
Last data point is Q2 2021



Source: ONS Workforce Jobs

On a sectoral basis there is a more mixed picture for the changes in workforce jobs over 2020 and into the first half of 2021. Figure 3.4 indicates that there has been some jobs growth in Construction, Finance, Human health and social work, Professional and scientific/technical activities and Administrative and support services between Q2 2020 and Q2 2021. In comparison, Manufacturing, Information and communication, and Arts and entertainment all shrank by over 8% during this period. This highlights the way the furlough scheme protected jobs in some, but not all, of the sectors most affected by the pandemic, and it is perhaps in some sectors with weaker employment protection that there have been the greatest job losses.

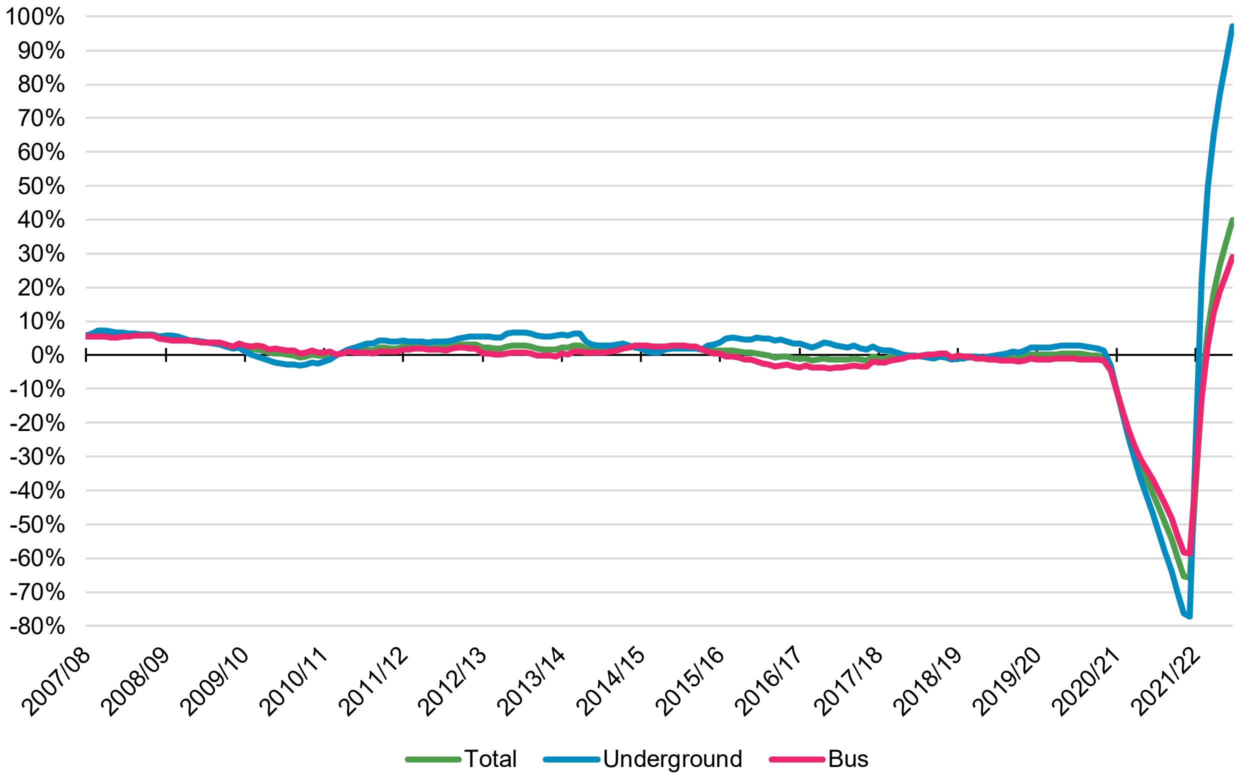
Figure 3.4: Proportionate change in workforce jobs by industry* in London Q2 2020 – Q2 2021



*Source: GLA Economics based on ONS – workforce jobs data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

In the context of the recovery from lockdowns, public transport use can be a handy indicator to track the state of the London economy. For example, more people travelling in London could reflect more people commuting to work because there are more jobs being undertaken at workplaces. Alternatively, it could reflect increased leisure activities, like shopping, which might indicate an increase in household spending. Having noted this, the variation of the 12-month moving average in total passenger journeys in London's public transport had been increasing throughout 2019 before starting to fall slightly by the end of the year and the beginning of 2020. However, this indicator sunk from March 2020 and has recently started to improve as demand for the use of public transport in London recovers from the pandemic lows (Figure 3.5). As a reference, in the period 20 September to 17 October 2021 the moving average of passenger journeys in London's public transport was 40% above the equivalent period in the previous year but still below pre-pandemic levels.

Figure 3.5: Variation (%) of the 12-month moving average in public transport passenger journeys in London



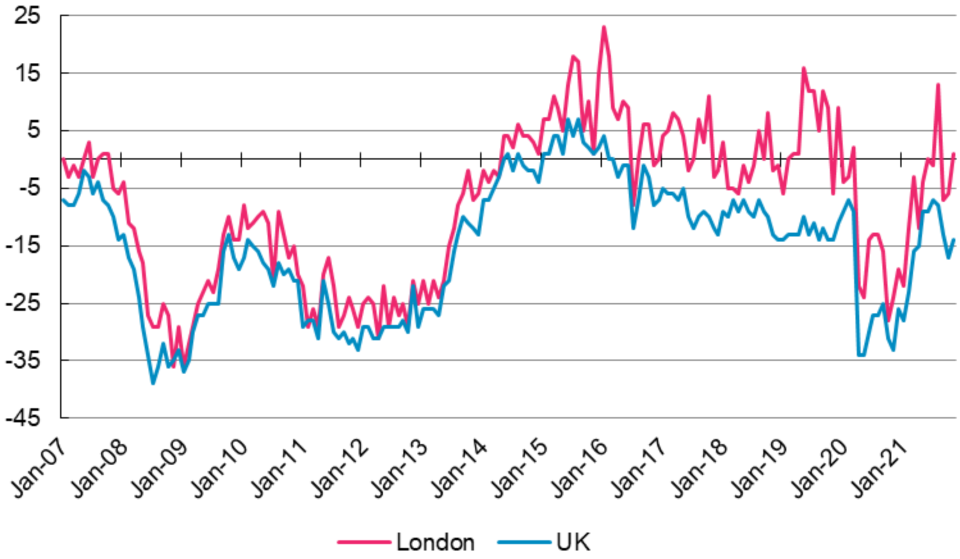
Source: GLA Economics based on Transport for London data. Last data point is the 25-day period ending on 17 October 2021.

The decline in transport mobility compared to pre-pandemic levels is one factor that negatively affects London's economy through lower spending in London's Central Activity Zone. The broader reduction in international travel has also had a bearing on spending. Other factors such as the current uncertainty on the control of the pandemic, the speed and size of the economic recovery and the UK's future commercial relationship with the EU may all also have a role in explaining this.

The GfK Consumer Confidence Barometer, a consumer confidence index, is a reliable indicator to measure how private consumption in London is being affected by overall uncertainty[28]. Looking at this indicator, the virus outbreak and the consequent first lockdown caused consumer confidence in London to drop sharply in April and May 2020 (Figure 3.6). As the first lockdown eased in June 2020, this index recovered slightly for some months - although always remaining negative - but the second wave of infections and the announcement and subsequent introduction of the second lockdown sunk the London index to eight-year lows in October and November 2020. There has been some recovery since although sentiment had remained in negative territory until turning marginally positive in November 2021. The figures thus suggest that London consumers are still somewhat worried about the present economic uncertainty. Still, data for London has remained less pessimistic than for the UK in terms of consumer confidence throughout the pandemic, as shown by Figure 3.6.

[28] The GfK Consumer Confidence Barometer reflects people's views on their financial position and the general economy over the past year and the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Figure 3.6: GfK Consumer Confidence Barometer for London and the UK

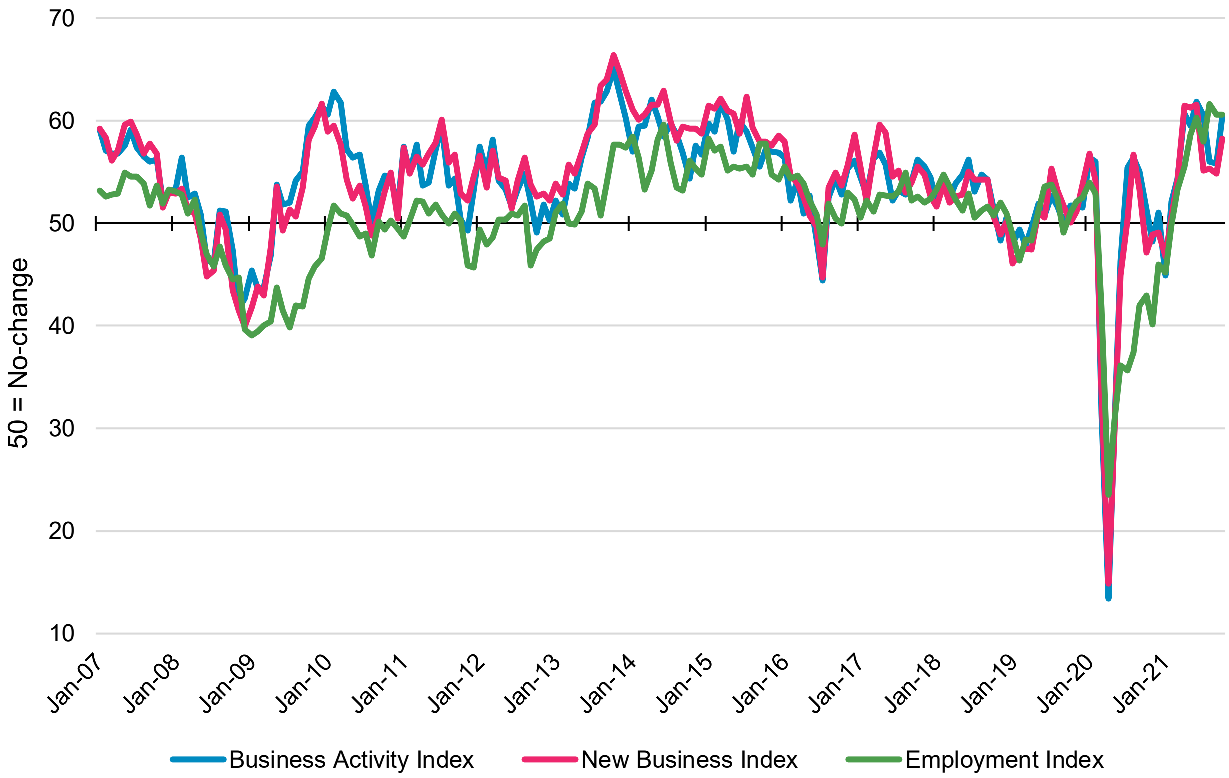


Source: GLA Economics based on GfK-NOP data. Last data point is November 2021.

Another high frequency indicator that correlates strongly with economic activity is the Natwest Purchasing Managers' Index (PMI) survey, which focuses on the sentiment of businesses in London[29]. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators like workload and employment. PMI data in 2019 prior to the pandemic remained slightly above 50 on average - indicating slightly expanding conditions. With the emergence of COVID-19 these indicators were dragged down to all-time lows in March and April 2020. A rapid recovery started in May, continuing over the summer, before again turning negative with the autumn and winter lockdowns. However, with the easing of the third lockdown all the indicators again show an expansion of activity (Figure 3.7). In fact, PMI Business Activity and PMI New Business indices returned to growth in February with the PMI Employment Index doing so in March. At the time of writing the latest indicators for October show continued strong levels.

[29] PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading is away from the 50 mark, the faster the rate of growth or decline.

Figure 3.7: Natwest PMI Business Activity for London, New Business and Employment Indices



Source: GLA Economics based on IHS Markit data. Last data point is October 2021.

The housing market had been picking up prior to the onset of COVID-19 as house prices and expectations of house prices had been rising through 2019. There was volatility in both measures over 2020, and both were moving downwards in the latter part of 2020 reflecting worse economic news. However, there has been a recovery in 2021 as the lockdown was eased following the vaccine roll-out (Figure 3.8). It is clear that housing has become more affordable for some households, who have built up savings over the pandemic. What is not known is the extent to which these savings might be used to purchase houses, or on other spending.

Figure 3.8: RICS house prices net balance index for London, change during last three months

Source: GLA Economics based on RICS data. The net balance index measures monthly the proportion of property surveyors reporting a rise in prices minus those reporting a decline in the last three months. The last data point is November 2021.

Beyond the challenges that London's economy is facing this coming year and its unclear outlook, it seems evident that some economic scarring cannot be ruled out. It is less certain how the scarring will roll out over the sectors of the economy and if any lack of liquidity leads to closure of otherwise solvent firms, although the capital's hospitality sector may be particularly at risk.

Box 3.1: The evolution of the COVID-19 pandemic so far

As shown in the rest of this chapter, after the sharp shock to the economy caused by the pandemic and lockdown measures, the reopening of the economy has pushed output in London close to pre-pandemic levels. Yet uncertainties remain about the long-term profile of the recovery, with growing downside risks from the new Omicron virus variant, price pressures and a reallocation of demand across sectors and regions.

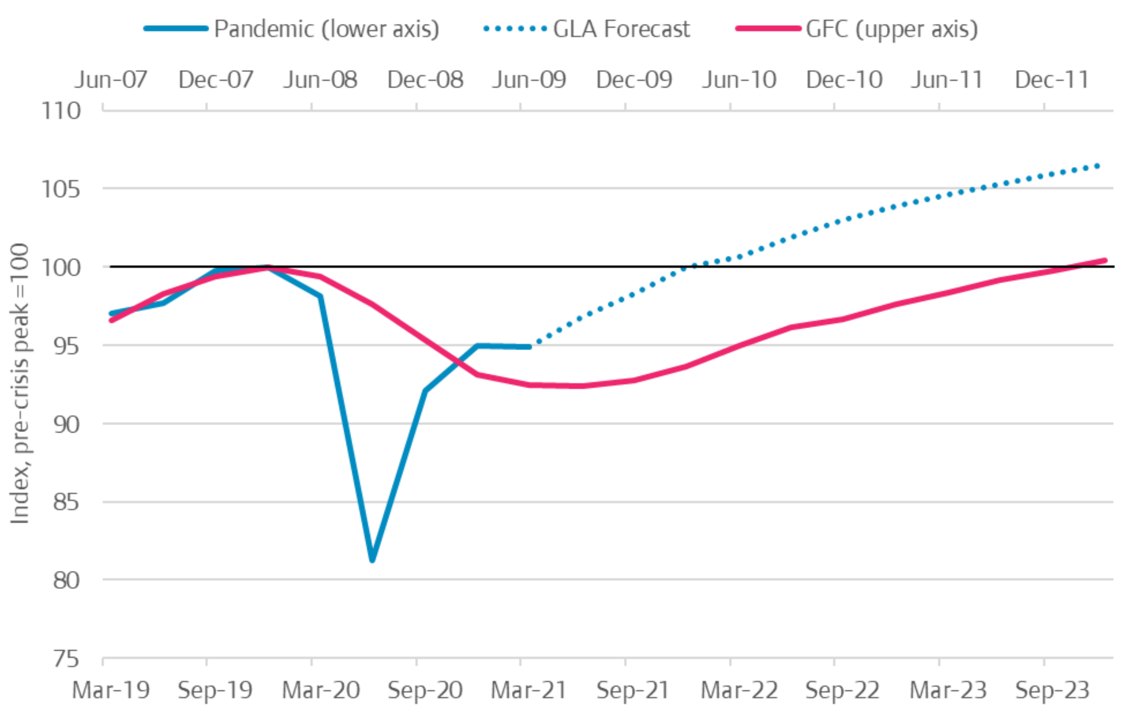
The pandemic resulted in a deep drop in economic activity, but the rebound has been rapid due to easing restrictions, strong policy support and structural adaptations.

As a public health crisis, rather than a traditional economic crisis, the COVID-19 pandemic has had an unusual impact on London's economy. Once COVID-19 arrived in the UK, controlling the rapid spread of the virus became a priority and the Government introduced national lockdown measures on 26th March 2020. Shutting down large portions of the economy meant economic activity fell 21.8% across the first half of 2020 at the national level and 18.8% at the London level.

However, once new infections slowed, national restrictions were eased and the economy rebounded rapidly, with growth of over 17% at the UK level in Q3 2020 and over 13% for the capital. While there have since been further national lockdowns in November 2020 and January 2021, experience from the first lockdown and the rollout of vaccines helped firms and consumers adapt to the new restrictions. Despite a month of lockdown, Q4 2020 saw London output grow 3.1%, and even the longer third lockdown cut London output by just 0.1% across Q1 2021. Government support also boosted activity, as the Coronavirus Job Retention Scheme (CJRS) subsidised wages for furloughed workers, supporting household spending power and containing firms' costs, while business loans, retail grants and tax relief also helped keep firms afloat so they could reopen rapidly. The Self-Employment Income Support Scheme (SEISS) completed the set of measures by providing grants to sole traders and partnerships.

The Government lifted the third lockdown progressively across late spring and early summer, finishing by 19 July 2021. This prompted another rapid increase in national GDP, with Q2 2021 seeing 5.5% growth. As a result, GDP was just over 3% below its end-2019 level by the end of Q2 2021. The pattern of a sharp drop and a rapid rebound from this public health crisis contrasts starkly with the experience following the last economic crisis in 2008. Despite an initially shallower impact, the recovery from the global financial crisis took twice as long as the projected pace of the pandemic recovery (Figure 3.9).

Figure 3.9: London output recovery paths after the pandemic and the financial crisis



Source: ONS, GLA projections

The job market has seen a different trajectory, with a shallow initial impact due to extensive government support giving way to a very slow recovery.

Meanwhile, the labour market has followed a different trajectory to output. Several government support schemes during the pandemic helped keep job losses contained, with the CJRS the most important. Under this furlough scheme, the Government subsidised up to 80% of a payroll employee's wages (up to £2,500 per month) while they did not work. This allowed firms to pass on wage costs to the Government and made it easier for them to retain employees. The scheme was originally intended to conclude in May 2020, but successive extensions saw it run until the end of September 2021, with a tapered reduction in the share of wages paid by the Government starting in July.

As firms were able to keep on workers they otherwise could not have afforded to pay during the pandemic, peak job losses were relatively limited. While output fell by more than a fifth across the first half of 2020, workforce jobs contracted by just 1.4% at the UK level across the same period. The national employment trough came in Q4 2020, with jobs 3.6% below their pre-pandemic level. London fared worse than other regions, but even in the capital the peak job loss was 5% in Q4 2020, far milder than the 13% peak impact on output.

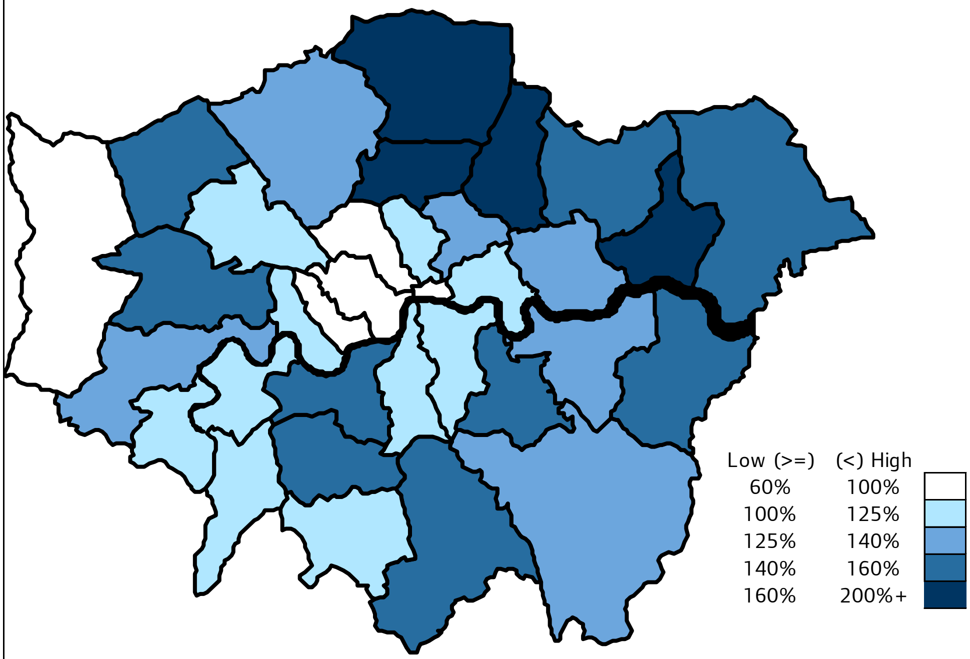
However, as shown in Chapter 5, the jobs recovery is set to be slower than the rebound in activity. While we expect output to reach pre-pandemic levels in early 2022, job numbers are projected to remain below 2019 levels until late 2022 or early 2023. This pace of recovery is largely in line with the experience of the financial crisis, raising the risk of medium-term scarring in London's labour market.

Beneath the aggregate recovery, changing patterns of work and spending shifted activity out of the centre of London.

While the aggregate recovery in output has been strong, this masks divergences between different sectors and geographical areas of London's economy. By Q3 2021, real UK output was around 2.1% below pre-pandemic levels. Yet within that overall picture, Wholesale and retail activity was 2.9% above end-2019 levels and health output was nearly 15% higher, while Arts and entertainment activity was 5.5% below pre-pandemic levels and Transport output was over 10% lower.

Clearly, several high-contact service sectors remained depressed well into 2021, and a continued reluctance to travel into the Central Activity Zone for work and leisure may mean different areas within London face a different level of impact from the pandemic. September saw total Tube and bus journeys still 27% below pre-pandemic levels, and the mid-November Opinions and Lifestyle survey showed that Londoners are particularly likely to work from home, with 49% more likely to work from home since the pandemic versus a UK average of 34%. Alongside changed working and mobility patterns among residents, international tourism continues to be weak, with Visit Britain projecting inbound visits to the UK will still be over 80% below 2019 levels this year. Taken together, these patterns have meant that spending activity has been hollowed out from inner London (Figure 3.10).

Figure 3.10: Payment card retail spending, October 2021 compared to pre-pandemic norm



Source: Anonymised and Aggregated data by Mastercard and City Intelligence Unit analysis; Note: as the pandemic may have reduced cash use, 100% of pre-pandemic card use may not imply a full spending recovery.

Growth is slowing as reopening gains run out, fiscal support pulls back and supply chain challenges generate headwinds

Recent months have seen the national pace of activity growth slow, with July recording an estimated 0.2% contraction in UK GDP and August output growing 0.2%. Even 0.6% growth in September left the level of activity roughly in line with its position in May. While we do not have official London output data in the same period, mobility data trends point to a moderate pace of activity growth in the capital in Q3 2021 and experimental ONS nowcast data suggest growth largely in line with national averages. London may benefit more than the wider UK from steady growth in some sectors, like Financial services and Professional services, and from the catch-up of the sectors hardest hit by the pandemic like Accommodation and food services, which grew 2.3% in September at the national level. However, the overall pace of the recovery has slowed on a broad basis, and after rapid improvements in the first half of the year, London's mobility figures are consistent with a shallower recovery profile in recent months.

While some deceleration of growth was always likely as the early gains from reopening the economy ran out, of 20 major sectors of the UK economy, at the end of Q3 2021 five still had output shortfalls of over 5% relative to 2019 levels, suggesting continued room for rebound. The pace of growth in September was also only weakly correlated with the activity shortfall from pre-pandemic levels, suggesting that weaker catch-up effects may not have been the main factor in explaining the decelerating recovery.

Three key developments help explain the slowing pace of growth. Firstly, fiscal support schemes have eased back in recent months, with both the CJRS and the £20 uplift to Universal Credit coming to an end in September. Before these schemes expired, government spending in Q2 2021 was already down 5.1% from Q1 2021 and is now likely to pull back faster over the coming quarters.

The second headwind facing growth is a slowdown in confidence. While business confidence in London and the wider UK remains positive (and picked up in October according to PMI measures), consumer confidence fell off sharply in Q3. London consumer confidence pulled back from +13 in August to -7 in September and the national data performed worse still, with UK consumer confidence at -13. Q4 data have seen some improvement, with London consumer confidence turning positive in November, but the impact of the new Omicron variant may well dampen consumer sentiment again. While the measures so far announced to combat the new variant might have a direct dampening effect on sectors reliant on commuters or tourism, the indirect effect through confidence is likelier to be larger – unless more stringent restrictions are required.

Thirdly, the UK economy is facing wide-ranging supply chain challenges. As economies worldwide enacted lockdowns to control COVID-19 at the same time as fiscal measures to support incomes during the pandemic, consumer demand rotated away from services to goods. Total goods imports by OECD countries have surged to record levels, surpassing the previous peak in late 2018 by over 9%. This rapid rise in global goods demand has come while production networks are still recovering to full capacity and as global shipping routes have faced disruptions including Covid outbreaks at key overseas ports. Even as UK PMI figures remain strong, sentiment among its import partners is more modest. Global manufacturing PMI figures show that while the industrial sector has been expanding solidly since mid-2020, sentiment has recently eased off, with September's reading of 54.1 the lowest for six months. The effect of import disruptions has shown up in the detail of the UK PMI figures too, with domestic manufacturers reporting record supplier delivery times.

Supply chain challenges are also generating cost pressures that are combining with higher energy prices and broadening wage pressures to raise inflation.

Even as the activity recovery is slowing, some of the same factors are also contributing to growing price pressures. CPI inflation has picked up to an annual pace of over 3% and the Bank of England projects a peak as high as 5% in spring 2022.

Three key factors are shaping the outlook for inflation. Firstly, the same supply chain challenges that are contributing to the slower recovery are also having an impact on inflation. One example is the impact of semiconductor shortages. A combination of technological bottlenecks, fluctuating pandemic demand, emergency outages in the US and Japan and port backlogs due to local lockdowns in China have all meant a shortage of computer chip materials[30]. This has caused delays in new car production, driving up demand for second-hand vehicles. As a result, the CPI sub-component for the purchase of used cars is now growing at a record annual rate of 19.2%. More broadly, the PMI gauge for input prices in London reached a record level of 75 in October – a reading of just 50 would indicate growth.

Supply chain challenges may remain for some months but there are good reasons to expect supply chain challenges to ease over the coming year. Firstly, higher prices should prompt suppliers to ramp up production, easing shortages. This may take longer in the case of highly concentrated, scale-oriented industries, such as semiconductor fabrication. Secondly, key measures of shipping costs are falling, with the Baltic Dry index (a freight cost measure) at half its peak levels in early October. Thirdly, some early examples of tight supply chains raising costs have already unwound, with one example coming from US lumber prices, which have eased from peaks in May. Fourth, global demand for goods should normalise as the pandemic comes under control. Domestically, UK real retail sales have fallen over 5% since April, while overseas, US consumer spending on durable goods has also been falling across the same period. Nevertheless, risks remain that periodic COVID-19 outbreaks disrupting ports and shipping and Brexit raising costs for importers (see Box 3.2) result in more persistent supply chain difficulties.

The second key factor behind higher inflation is an increase in energy prices. UK average petrol prices pushed above 147p per litre in late November, the highest since official records began in 2003, while the Ofgem cap for gas tariffs rose 12% in October due to global natural gas prices more than doubling between March and September. While the future path of global commodity prices is uncertain, the Bank of England noted in its November Monetary Policy Report that futures contract curves point to a decline across the course of 2022.

A third key driver of the inflation outlook is the path for wages. Wage data are currently distorted by compositional effects (as low-wage workers were the likeliest to lose their jobs in the pandemic) and base effects (as growth comparisons are made with low wage levels in 2020). However, ONS measures of average weekly earnings point to underlying annual growth in regular pay of at least 3.4% in the three months to September, even accounting for these base effects[31]. Firming wage growth may be partly due to recruitment difficulties, as ONS data show over one in eight firms found vacancies hard to fill in November. Vacancies are often highest in sectors with the most furloughed employments, suggesting employers are not fully satisfied with the pool of un- or under-employed workers available to them[32]. This could point to skills or geographical mismatches that may lead to within- and between-sector reallocation of labour, generating additional wage growth due to churn[33].

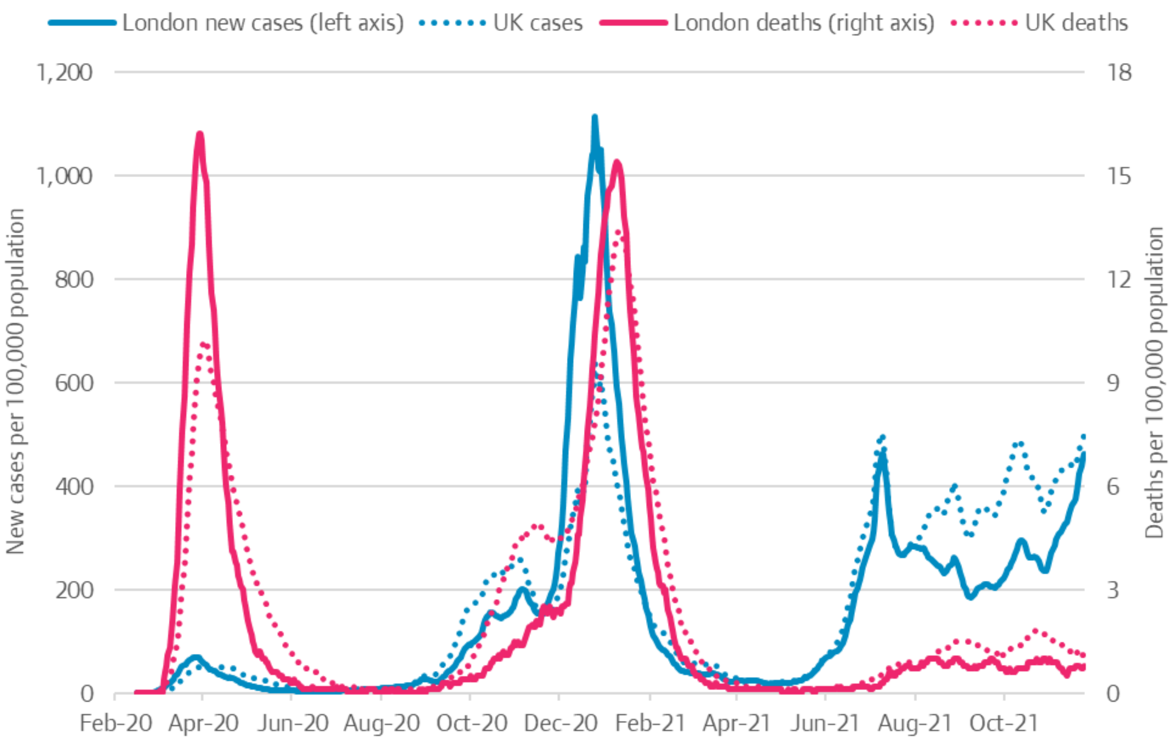
As with supply chain challenges, labour shortages are expected to ease across the coming year, with furlough coming to an end and the economy recovering. IFS analysis[34] also finds that most jobseekers face sharp competition for each vacancy, so higher pay awards may be concentrated in areas of scarce skills.

These points are consistent with the fact that real wages are up just over 1% in annualized terms compared with 2019.

Looking ahead, there are several key risks to the recovery, from inflation eroding real incomes to job market mismatches to new Covid variants.

Despite reasons for optimism surrounding some of the headwinds currently facing the economy, the pandemic still presents several key risks to the outlook. In the near term, the recovery so far is founded on control of the pandemic, and the new Omicron variant poses yet another challenge to that control. While the UK has seen new cases at an elevated level since the economy reopened in July, hospitalisations and deaths have so far remained low (Figure 3.11). New cases per 100,000 are averaging above 450 at the UK level, but London is recording a rate around 12% lower at around 400 per 100,000. While the lower case rate is a positive to some extent for the capital, London's recovery depends on activity around the UK and the world. The emergence of the heavily-mutated Omicron variant is also a reminder that the threat of new Covid variants will persist as long as there are widespread cases anywhere. These points mean that unless the pandemic comes under control globally, London's recovery will continue to face the threat of further disruption.

Figure 3.11: London and the UK case rates and death rates



Source: coronavirus.data.gov.uk

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[30] BBC, 27 August 2021
[31] The ONS has indicated that wage statistics are currently difficult to interpret due to temporary compositional and base effects, some of which are now fading. See ONS blog post (2021) Far from average: How COVID-19 has impacted the Average Weekly Earnings data
[32] While this relationship might appear to be driven by the simple size of different sectors, there is still a positive relationship between sector furloughs and sector vacancies when both are taken as a share of sector payroll employment
[33] Job-to-job moves are often associated with pay rises, see ONS (2019) Analysis of job changers and stayers
[34] IFS (2021): Job opportunities during the pandemic

Widespread vaccinations and improved treatments should help mitigate the risk from Covid, and the new acceleration of the vaccine booster dose scheme should offer further protection. Yet a hard test lies immediately ahead, with the Omicron variant showing some signs of being able to escape the immunity protection of existing vaccines as it spreads rapidly around the world. Community transmission already looks to be underway in the UK, and it remains to be seen whether the recently-introduced guidance on home working and mask-wearing can avoid a similar spike in cases as in winter 2020 during the coming months. The Omicron variant clearly pushes the balance of risks for the recovery further to the downside, but as of the time of publication there is still uncertainty around key epidemiological facts, let alone the potential economic impact. Due to this uncertainty, while our baseline forecast (see Chapter 5) incorporates reduced social contact amid the latest restrictions, it does not incorporate the impact of any national lockdown due to the new variant. However, it is worth noting that even if activity restrictions are required, our downside scenario envisions a relatively shallow impact, as the economy has proven increasingly resilient to lockdown measures.

In the medium term, the pandemic could yet create a number of challenges for the later stages of the recovery. First is the threat from sustained higher inflation, which would erode household spending power by lowering real incomes. While we expect the main drivers of high inflation to ease over the coming year, if higher inflation now becomes baked in to higher inflation expectations, this could produce wage growth ahead of productivity growth, risking a stagflationary decoupling between price and output growth. Citi and YouGov polling points to sharply rising year-ahead inflation expectations, which were up 1 percentage point to 4.1% in September, while five-year expectations rose to 3.8% from 3.5% in August. Higher inflation would combine with existing headwinds to income growth, slowing the vitality of the consumer recovery. At the national level, the IFS have combined projections from the Office for Budget Responsibility with a distributional analysis of recent fiscal policy changes to conclude that next year the median UK earner will see real disposable income dip despite a strong output recovery[35]. These concerns figure in the slower medium-term pace of growth in our downside scenario (see Chapter 5)

A second medium-term threat from the pandemic is the possibility of permanent sectoral and geographic shifts of activity and demand. If widespread working from home becomes a permanent feature of the economy, demand for services in the centre of London is likely to fall, affecting jobs and output. Academic studies indicate that around 34,000 retail and hospitality jobs would no longer be needed in Central London due to the 'zoomshock' from more home working[36]. Nearly 40% of these jobs would move outside London altogether, and a longer-term mismatch between the location of workers and jobs could dent productivity. Slower productivity growth would lower long-term output growth and make any rise in wage growth due to sectoral reallocations of labour more inflationary.

3.2 The UK economy

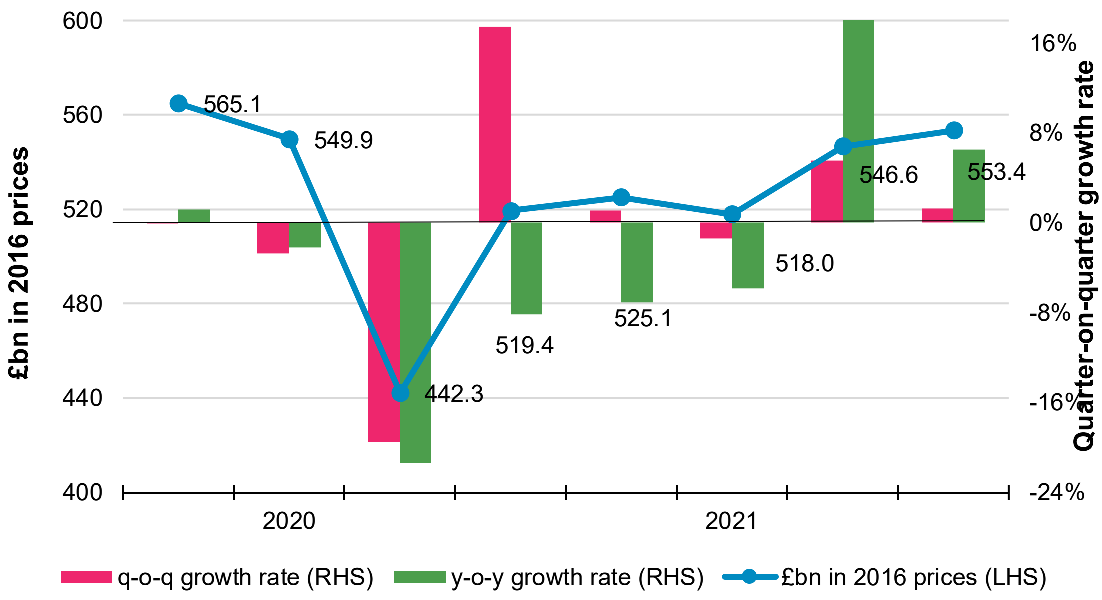
The UK suffered unprecedented falls during the first part of 2020 – and especially from late March to late May, the UK economy experienced the largest contraction of real GDP for over 300 years (-2.7% in Q1 2020 and -19.6% in Q2 2020, when compared to the previous quarter). The decline in the economy by over a fifth compares with a fall of 6% during the 2008-2009 financial crisis. This historic decline in national output was the result of the initial outbreak of COVID-19 and the public restrictions taken to contain its spread.

35 IFS (2021): Autumn Budget and Spending Review 2021, Living standards

36 De Fraja, G., J. Matheson, P. Mizen, J. Rockey, S. Taneja, G. Thwaites, (2021): Covid reallocation of spending: The effect of remote working on the retail and hospitality sector (UKRI ESRC funded research)

As the first lockdown was eased from June 2020 economic activity started to recover, at least to some extent, over the summer, led essentially by private consumption. Beyond this, it is thought that public spending had a positive impact on the pickup of household expenditure during the initial recovery period. However, the economy again declined with the introduction of a third lockdown in the New Year but has since resumed growth with the removal of restrictions during the second quarter of 2021. As a result, UK real GDP fell by 1.4% in Q1 2021, but then grew by 5.5% in Q2 2021 and by 1.3% in Q3 2021 although it still remains 2.1% below pre-crisis levels (Figure 3.12).

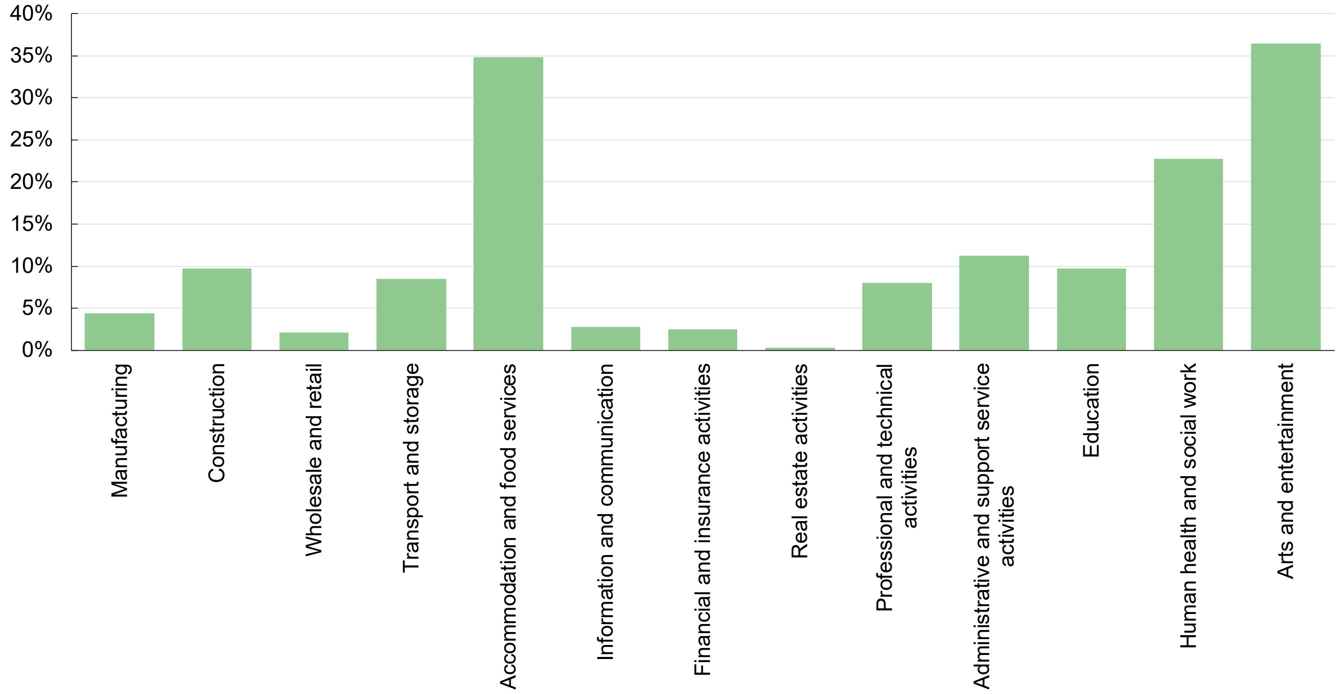
Figure 3.12: UK real GDP (Q4 2019 – Q3 2021)



Source: GLA Economics based on ONS – UK National Accounts data.

As with London, the UK sectoral distribution of the impacts of the recovery from the pandemic is uneven, although this largely reflects which sectors had been most heavily hit by the pandemic. Thus as these were some of the most impacted sectors Accommodation and food services and Arts and recreation saw significant growth, although their recovery continues to lag other sectors (Figure 3.13).

Figure 3.13: Proportionate change in real GVA by industry* in the UK Q3 2020 – Q3 2021



*Source: GLA Economics based on ONS – UK GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

GDP data can also be split into different types of final expenditure. That is, the expenditure on goods and services which are not used in the production process (i.e. as intermediate consumption). This includes final expenditure by households, general Government and the non-profit institutions serving households, as well as expenditure used in gross capital formation (e.g. business investment)[37]. For the most recent period, the year to Q3 2021, there was growth across all sectors (Table 3.1).

Table 3.1: Annual rates of real growth in domestic final expenditure for the UK

	2019	2020				2021		
Expenditure	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Households	-0.1%	-2.7%	-23.1%	-7.5%	-8.5%	-10.3%	20.7%	2.7%
Non-profit institutions	-2.8%	-5.8%	-28.4%	-23.7%	-23.0%	-17.8%	9.5%	5.1%
General Government	5.4%	-0.9%	-18.1%	-4.3%	-2.2%	2.9%	35.2%	16.6%
Gross fixed capital formation	-0.1%	-4.4%	-21.6%	-7.9%	-2.4%	-2.8%	21.4%	3.0%

Source: ONS (2021). 'GDP first quarterly estimate, UK: July to September 2021', 11 November 2021.

Household expenditure is important to the UK economy, with it contributing three-fifths to UK GDP in 2020. However, the latest estimates showed that after growing strongly in Q2 2021 consumer spending moderated to annual year-on-year growth in real terms of 2.7% in Q3 2021. The other notable trend is for General Government which grew by 16.6% over the same period.

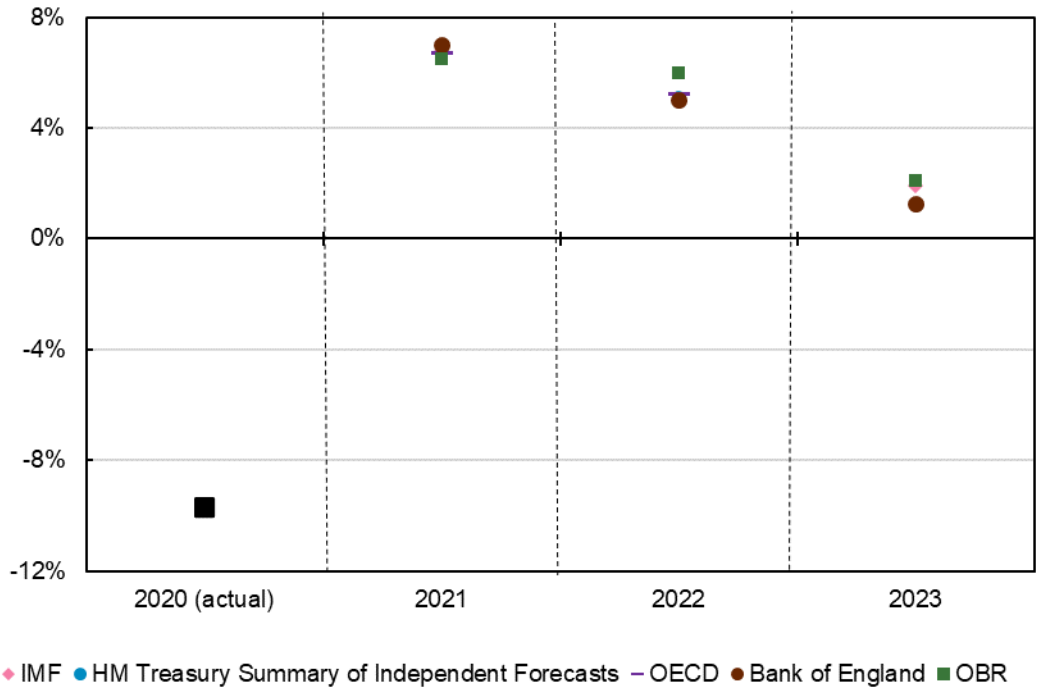
Forecasts of the UK economy

Looking to the outlook for the UK economy over the coming year, other uncertain elements such as the global economic recovery, the degree of scarring of the economy, the continued impact of Brexit (see Box 3.2) and the prolonged concerns on low productivity add to the risks already mentioned for the very short term. Although the fiscal support for businesses, and notably the furlough scheme ended in September the Autumn Budget did not further roll back spending providing continued support to the UK economy. Despite

[37] It also includes net trade in goods and services.

this there remains a range of opinion around how quickly the economy will recover over the next two years before settling on a narrower range in 2023 (Figure 3.14). Broadly speaking forecasters (like the Bank of England (BoE)) expect stronger growth this year than next, but with still significant growth next year.

Figure 3.14: External forecasts of UK real GDP growth for 2020-2023



Source: GLA Economics based on ONS, HM Treasury, Bank of England, OECD, IMF, and OBR projections

The OBR and HM Treasury also publishes forecasts for other variables like the labour market and public-sector net borrowing (PSNB). These are shown in Table 3.2.

Table 3.2: Selected OBR and HM Treasury consensus forecasts for the UK economy

	HM Treasury's Average of Independent Forecasters (November 2020)		Office for Budget Responsibility (October 2021)	
	2021	2022	2021	2022
Annual real GDP growth rate	7.0%	5.1%	6.5%	6.0%
LFS unemployment rate	4.9%	4.6%	4.9%	4.8%
Current account	-£61.3bn	-£74.2bn	-	-
Public sector net borrowing (financial year)	£193.5bn	£103.5bn	£183.0bn	£83.0bn

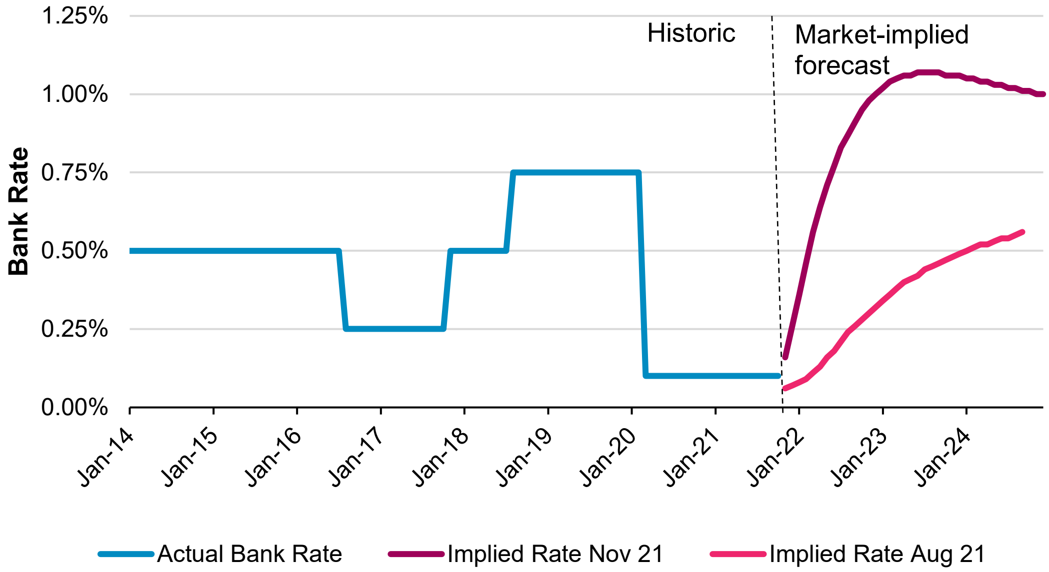
Sources: HM Treasury (2021). '[Forecasts for the UK economy: a comparison of independent forecasts](#)', November 2021; and OBR (2021). '[Economic and Fiscal Outlook – October 2021](#)', October 2021.

Other UK economic indicators

Beyond GDP, another important economic indicator is inflation as measured by the Consumer Price Index (CPI). Inflation, which had been above the Bank of England's central symmetrical target of 2% since February 2017, in part due to the large depreciation of sterling following the EU referendum, fell back in 2019. This decline in inflation was expected as the pickup in inflation from 2017 was expected to be shortlived as the sterling-related price increases worked its way through the economy and did seem to have happened with CPI inflation standing at 1.5% in March 2020[38]. The weakness of demand in the economy during the pandemic further subdued inflationary pressures. However, with the easing of the impact of the pandemic releasing pent up demand, global supply chain pressures and the impact of Brexit, inflation again exceeded the Bank's target by the end of 2021. Nevertheless, the BoE expects inflation to moderate over time with them commentating that, "the upward pressure on CPI inflation is expected to dissipate over time, as supply disruption eases, global demand rebalances, and energy prices stop rising. As a result, CPI inflation is projected to fall back materially from the second half of next year"[39].

In part due to the economic shock of the pandemic and the fact that output has yet to return to pre-pandemic levels the Bank had not raised interest rates since August 2018. Instead as the scale of the impact of social distancing measures to tackle COVID-19 became apparent in March 2020, the Bank lowered interest rates to 0.25% and then to 0.1%. However, the faster than previously expected rise in prices have led to a growing expectation of faster interest rate rises over the coming year. Accordingly, future interest rates are now expected to rise to over 1% over the next couple of years (Figure 3.15).

Figure 3.15: Market-implied interest rate path for the UK



Source: Bank of England (2021), '[Monetary Policy Report – November 2021](), November 2021.

Interest rate changes can have several influences on the economy[40]. All other things held constant, rises can bolster sterling as returns (interest) on sterling would be relatively higher than other countries leading to an increase in demand for sterling-based assets by foreigners. They can also reduce consumer demand as higher interest on savings raises the 'opportunity cost' of spending. Likewise, it can reduce the appetite to invest and borrow as the cost in terms of debt interest would be higher. It can thus slow the rate of inflation and negatively affect the rate of economic growth in the short run through the combined effect of weaker demand for goods and services. Lowering interest rates would have the reverse of these effects. However, the magnitude of these effects will be dependent on several factors – i.e. the speed and scale of the interest rate changes, the time it takes for interest rates to work through the transmission mechanism, and the current state of the wider economy – and therefore provides some further uncertainty to economic

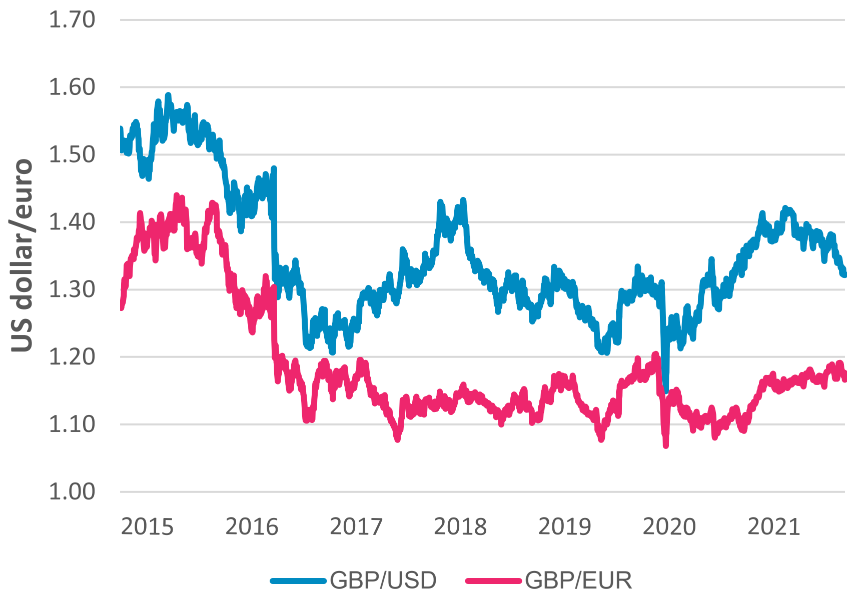
[38] ONS (2020). 'Consumer price inflation, March 2021', March 2021.
[39] Bank of England (2021). 'Monetary Policy Report - November 2021', November 2021.
[40] For more information, see Bank of England (1999). 'The transmission mechanism of monetary policy', Bank of England Quarterly Bulletin, May 1999.

forecasts. It should also be noted that interest rates in the UK remain at historically very low levels and any changes in rates are expected to keep rates at levels that are still historically very low, indicating that the dampening effect of interest rates on the UK in the near term could still be limited.

The value of sterling fell following the result of the EU referendum in June 2016 and this is shown in Figure 3.16. Sterling had been relatively steady against the Euro since mid-2017, although there have been marked down and then upward movements in the second half of 2019 as first a no deal Brexit became more likely, and then a deal became more likely. At the same time, sterling appreciated against the US dollar through 2017 and into the early part of 2018 but had since dropped back largely due to the continuing impact of Brexit.

In early March 2020 when it became apparent that the UK economy would be significantly affected by COVID-19 the pound depreciated again against both the US dollar and the Euro. In part, this reflects a flight to strong currencies, but it may also reflect the comparative weakness of the UK economy after the vote to leave the EU. Despite this the pound has more than recovered against the dollar perhaps reflecting the poor US response to the COVID crisis, and has recovered against both the dollar and the euro this year which may reflect first the strength of the UK vaccination programme and then expectations of interest rate rises.

Figure 3.16: Sterling to US dollar and euro exchange rates
Last data point is 8 December 2021



Source: Bank of England

Box 3.2: An update on Brexit

The ten previous editions of LEO[41, 42, 43, 44, 45, 46, 47, 48, 49, 50] up to May 2021 have provided updates on the process of the UK leaving the EU and estimates of the impact on the London economy. Since the UK left the Single Market in December 2020, and the Trade and Cooperation Agreement (TCA) allowing trade in goods with zero tariffs has come into effect, this edition provides early evidence of emerging impacts.

1 UK-EU relations

The implementation of the TCA has not gone smoothly. There have been areas of disagreement, and there is the potential for further disagreement. This carries the risk, where the UK and the EU fail to find an accommodation, that the dispute escalates. The UK has threatened this, bringing the risk of a trade war with each side imposing tariffs on traded goods. This would have damaging economic consequences.

In October, almost three months after the UK demanded far-reaching reform of the Brexit deal's trading arrangements for Northern Ireland, the protocol, the European Commission proposed more limited changes. The UK wanted to eliminate most checks on goods going from Great Britain to Northern Ireland, while the EU has made proposals which could end as much as 80% of current checks. The UK has rejected the proposals as not going far enough, and not meeting its demand for an end to the role of the European Court of Justice in oversight of the Northern Ireland protocol. This dispute has not been resolved.

Also, in October there was a dispute between the leaders of the UK and French Governments about fishing rights in UK waters[51]. This turned on the application of criteria to grant French boats the right to fish in UK waters, and there has been an unsuccessful attempt to resolve the matter through an administrative easement. The dispute also still simmers.

The discord may continue as there is scope for further disagreement in areas of the TCA which are due to be implemented in full from January 2022:

- Rules-of-origin[52] - To benefit from zero tariffs goods from and to the UK will need to have supporting documentation that they have been made in the UK or the EU respectively – currently there are reduced requirements for certification. The precise rules-of-origin and the way "originating content" is calculated vary across products but typically an item must be about 50% British or EU made to qualify for zero tariffs. Industry insiders and commerce experts have warned that many British businesses are failing to comply and could face a flood of disruptive enforcement actions by the EU's customs authorities next year[53];

[41] GLA Economics (2016). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections', November 2016.
[42] GLA Economics (2017). 'London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections', June 2017.
[43] GLA Economics (2017). 'London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections', November 2017.
[44] GLA Economics (2018). 'London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections', May 2018.
[45] GLA Economics (2018). 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', November 2018.
[46] GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019.
[47] GLA Economics (2019). 'London's Economic Outlook: Autumn 2019 The GLA's medium-term planning projections', December 2019
[48] GLA Economics (2020). 'London's Economic Outlook: Spring 2020 The GLA's medium-term planning projections', June 2020.
[49] GLA Economics (2020), 'London's Economic Outlook: Autumn 2020 The GLA's medium-term planning projections', December 2020.
[50] GLA Economics (2021). 'London's Economic Outlook: Spring 2021 The GLA's medium-term planning projections', June 2021.
[51] The Guardian (2021). 'France backed down in fishing row after Jersey offer 'to move things forward'', 2 November 2021.
[52] Financial Times (2021). 'UK exporters fall foul of post-Brexit trade rules', 25 October 2021.
[53] There are other firms who are paying tariffs when they need not, in part to avoid the costs of bureaucracy. The UK Trade Policy Observatory (UKTPO) estimates that for the first seven months of 2021 between 26% and 32% of UK exports to the EU that could have entered under a zero-tariff did not

- UK customs declarations and controls for EU imports[54] – these will be introduced from 1 January 2022, although the provision of safety and security declarations has been postponed until 1 July 2022.

There is potential for dispute in some other areas[55]:

- Financial services – the EU wanted banks to move capital and staff to the EU. It has not agreed to equivalence, that is mutual recognition of trading practices, and it has been tightening some of its regulatory requirements. As the Withdrawal Agreement expired at the end of last year UK-based banks moved trading in euro-dominated assets to the EU, and as part of the establishment of EU-based entities transferred assets to the EU to meet capital adequacy requirements for trading. More recently, the European Central Bank has started to crack down on the 'back-to-back' model, where EU-based entities continue to manage risk from the UK. EU regulators have also started to look critically at practices such as 'chaperoning' – when EU-based workers sit in on calls between customers and UK-based traders, so an EU-based firm can say it is undertaking the regulated activity. Other levers are to limit the ability of asset managers to manage EU funds from the UK or to require clearing houses to move into the EU in the coming years. Despite these challenges Workforce jobs in the Finance sector in London have grown this year.

- Trade in goods between the EU and the UK will be further disrupted if the EU introduces its carbon-border adjustment mechanism (CBAM). This will see EU imports of certain products (currently iron, steel, aluminium, cement, fertiliser and electricity) subject to additional bureaucracy[56]. As it stands, the EU CBAM only exempts four countries which are either part of, or link their Emissions Trading Systems to that of the EU – Norway, Iceland, Liechtenstein, and Switzerland.

- The EU has decided to grant two adequacy decisions for the UK, allowing the personal data of EU citizens to be stored and processed on servers located in the UK. This however is at risk for two reasons. First, because the UK has signalled its intention to differentiate itself from the EU when it comes to the regulation of data. Second, because the UK may decide to allow the free transfer of personal data to countries, such as the US, that do not already have an EU adequacy agreement in place. This could allow personal data of EU citizens to be transferred, via the UK, to countries that the EU does not recognise as providing adequate data protection.

2 Overall impact of Brexit

The OBR in October provided its first assessment of the economic impact of leaving the EU since the UK's departure[57]. It looked at a comparison of UK goods trade trends with the EU and the rest of the world since the end of the transition period, and a model comparing UK goods trade with that of a 'doppelganger' (a weighted average of countries with trade patterns similar to the UK when it was an EU member). The early conclusion, based on data up to August, was that there had been a fall in trade intensity, and that this was consistent with the earlier OBR assumption[58] of a 15% fall compared with what would have happened had the UK not left the EU. That is, the OBR still expects a fall in output of 4% compared with what it would otherwise have been from Brexit. This remains a preliminary analysis because this data is only for goods trade and does not include services, the TCA has not yet been fully implemented, there are likely to be longer term effects on trading patterns as businesses re-structure, and trade data can be volatile and revised

[54] Financial Times (2021). 'UK postpones imposing checks on EU goods until 2022', 14 September.
[55] Lowe S. (2021). 'EU-UK relations: there is no steady state', 26 October.
[56] Notionally, there is also a charge proportionate to the amount of CO_2 embedded in the product. This is not relevant to the UK as the UK sets a high carbon price, and monies owed to the EU by importers can reflect charges paid in the country of origin.
[57] Office for Budget Responsibility (2021). 'Economic and Fiscal Outlook – October 2021'
[58] As reported in the previous reference

frequently. It also does not take into account the effects of the exchange rate depreciation after the EU Referendum in June 2016 and its impact on trade flows.

The UK Trade Policy Observatory (UKTPO)[59] has also conducted its analysis of the impact of Brexit on trade in goods and as well as on trade in services (which account for 75% of London exports and 45% of UK exports[60]). Using a similar methodology to that reported by the OBR, for the period January – July 2021, they estimate that the TCA reduced goods exports to the EU by 14% and by 24% for imports from the EU. The effect on exports is mostly concentrated on a prominent decline in January 2021, while imports exhibit persistent negative effects throughout all months. In the first half of the year the TCA may have reduced service exports to the EU by 11.5%, and service imports from the EU by 37%.

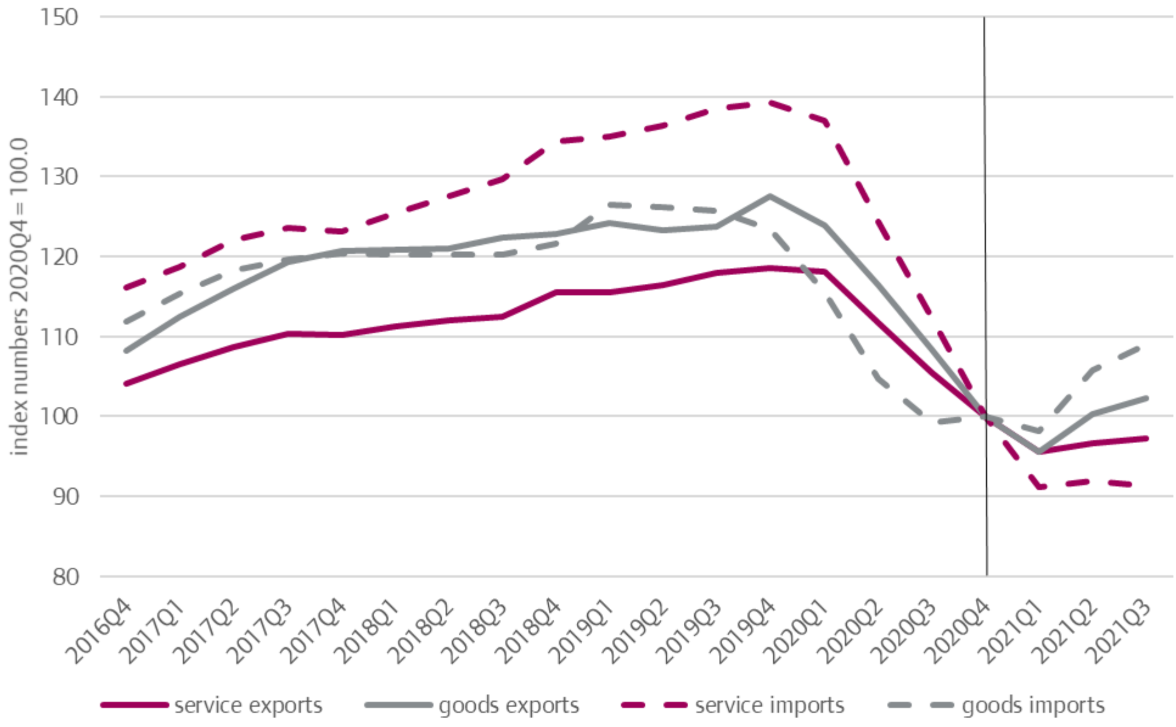
Finally, it should be noted that economists continue to view the impact of Brexit on the UK economy to be more severe and long-lasting than the effects of COVID-19. For comparison the OBR estimates that the pandemic will reduce output over the medium-term by 2%.

3 Early impacts of Brexit on services trade

After the EU Referendum in June 2016 UK goods and services exports and imports increased. The exchange rate depreciation after the referendum made exports more competitive, while the UK's involvement in international supply chains may have increased demand for imports. After the onset of the pandemic trade collapsed to below 2016 levels. This continued after the TCA came into effect in the first quarter of this year, although subsequently there has been some recovery of goods trade, and less so for services trade (Figure 3.17).

[59] Ayele, Y. et al. (2021). 'Post-Brexit: Trade in goods and services (II)', UK Trade Policy Observatory, Briefing Paper 63.
[60] Hope, M. (2020). 'An update on London's trade', London's Economy Today supplement, August 2020, figures for 2017.

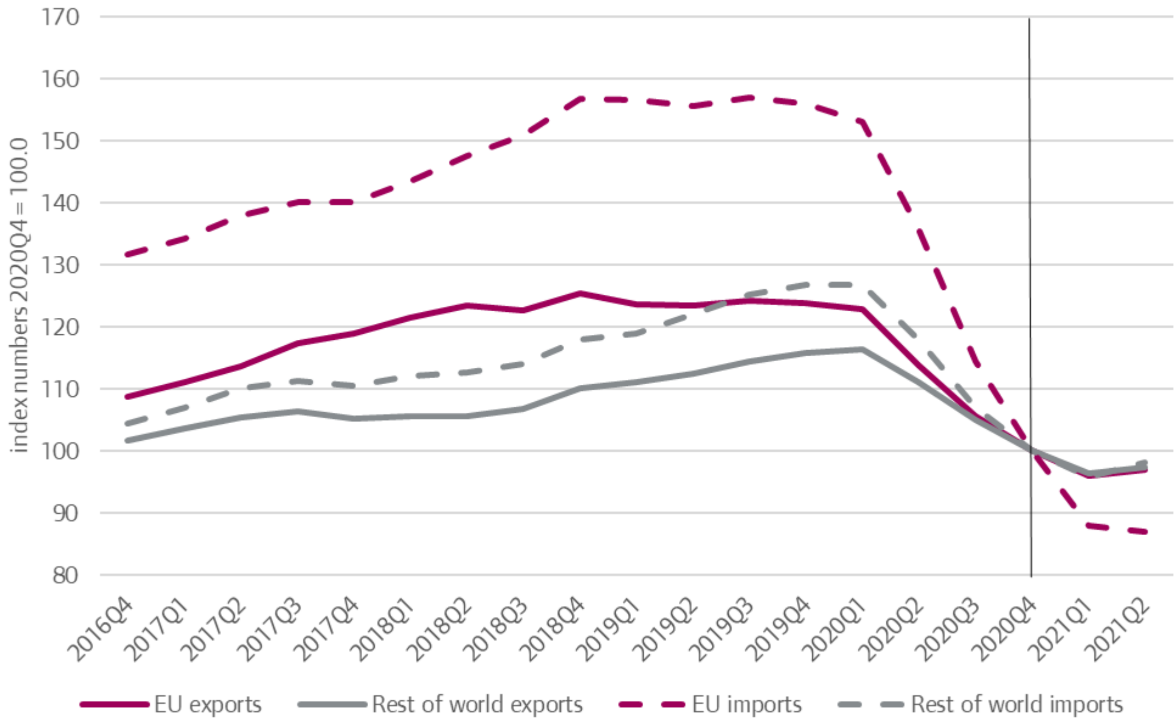
Figure 3.17: UK goods and services trade after inflation, annual moving average, 2016 Q4 to 2021 Q3, index numbers 2020 Q4 = 100.0



Source: ONS monthly trade statistics
Note: Inflation measure used is the GDP deflator

The expansion of UK trade in services with the EU after the EU Referendum continued into 2018 before flattening out, perhaps reflecting the uncertainty at the time about the UK's future relationship with the EU. Trade with the rest of the world continued to grow. UK services trade, both with the EU and beyond, fell dramatically during the pandemic. They have continued to fall this year. The trends, though, seems to have stabilised in Q2. Curiously, it is service imports from the EU which have fallen most, although the reasons for this are not, as yet, well understood (Figure 3.18).

Figure 3.18: Trend in UK services trade, after inflation, to the EU and the rest of the world, annual moving average, 2016 Q4 to 2021 Q2, index numbers 2020 Q4 = 100.0

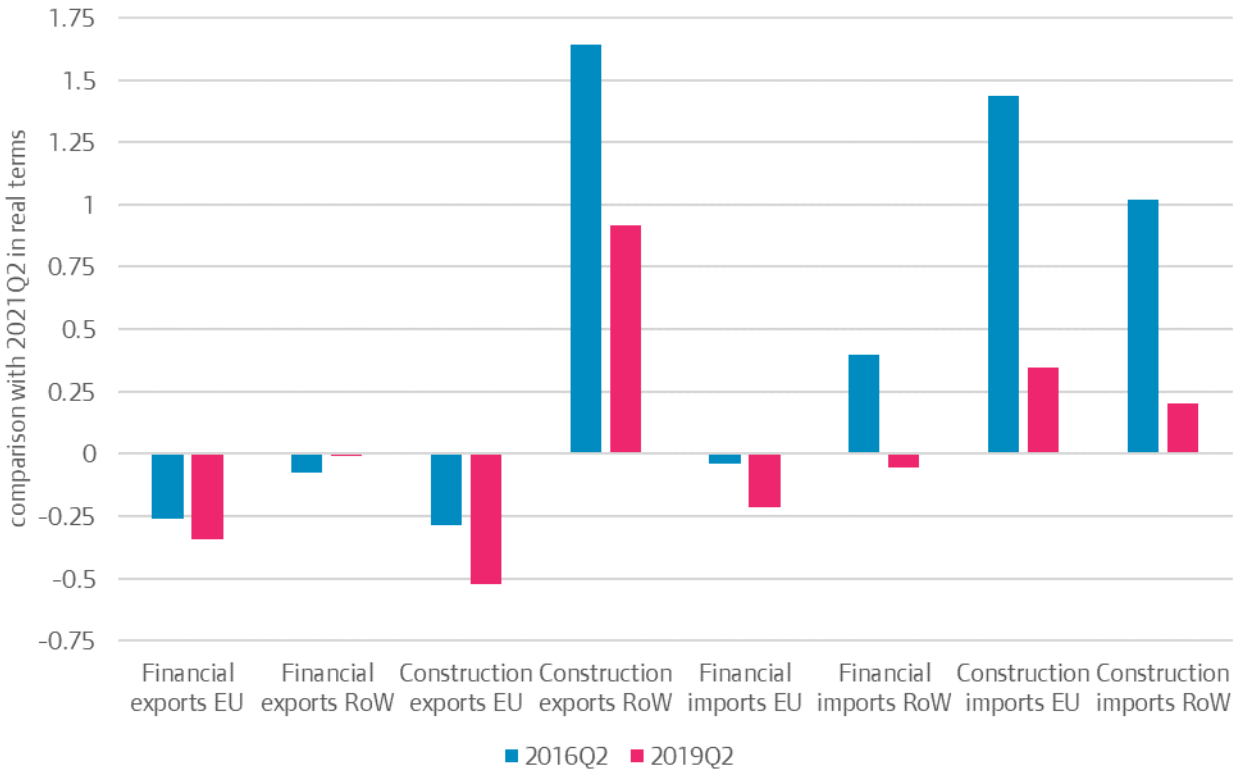


Source: ONS UK trade in services: service type by partner country
Note: Inflation measure used is the GDP deflator

In the first two quarters of this year exports to the EU fell across service categories[61]. For many categories, but not all, the growth in exports to the EU after the EU Referendum had been more than offset by the fall since the start of the pandemic. Some categories, such as Construction, have seen offsetting growth in exports to the rest of the world. Construction is also one of the categories which has seen an increase in imports from the EU and where the level in 2021 Q2 was higher than in 2016 Q2. The Financial category is one where exports have fallen to the EU and the rest of the world (Figure 3.19).

[61] The service trade exports series reports against the UN Extended Balance of Payments Services Classification (EBOPS 2010). This is primarily a product-based classification, and also includes transaction-based criteria. This compares with the SIC classification used in GLA Economics analysis which measures activity. Consequently the definitions of terms such as financial and construction will not be the same across classifications.

Figure 3.19: Real terms percentage change in trade to the EU and the rest of the world for the UK financial and construction categories, 2016 Q2 and 2019 Q2 compared with 2021 Q2



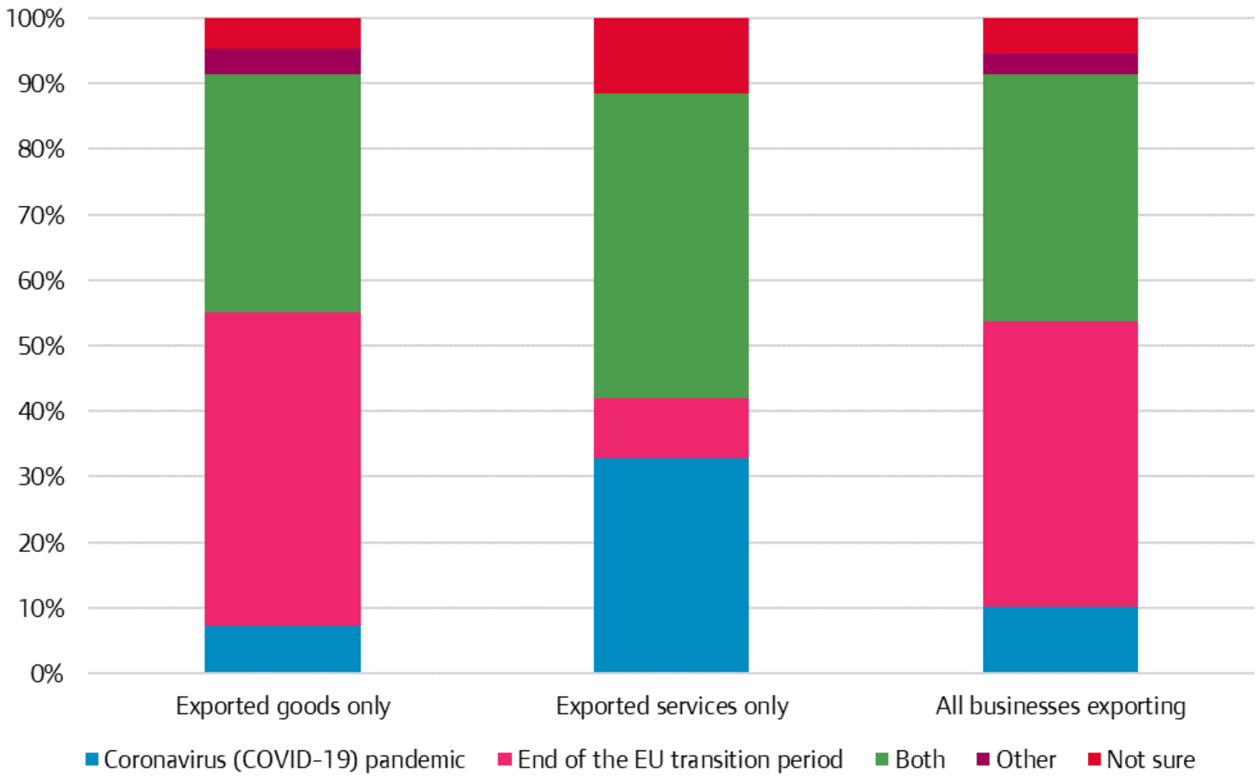
Source: ONS UK trade in services: service type by partner country

Note: Inflation measure used is the GDP deflator, and categories are UN EBOPS 2010

Evidence from business survey data suggests that goods exporters have been disproportionately impacted by the end of the EU transition period on its own while services exporters have been disproportionately impacted by the pandemic on its own, although a large share of both categories (over 35% in each case) have been impacted by both[62] (Figure 3.20). Of currently trading businesses, 55% exported goods, 37% exported services, and 7% exported both. In the two weeks 20 September – 3 October 32% of businesses had been exporting less than normal or had not been able to export. As for exporting businesses, for businesses with import challenges the end of the EU transition period is relatively much more important even though import checks have not yet been introduced.

[62] The analysis for this paragraph comes from the ONS Business Insights and Conditions Survey for 20 September – 3 October.

Figure 3.20: Percentage of businesses currently trading that have exported in the last 12 months and reported an export challenge by export status, UK, 20 September – 3 October 2021



Source: ONS analysis of ONS Business Insights and Conditions Survey
Note: analysis based on small sample sizes, so results will have a wide margin of error

4 Early impacts of Brexit on migration

After the UK exit from the EU the UK introduced new immigration procedures for both EU nationals and nationals from other countries. This reduced the scope for immigration to low wage jobs. Additionally, many EU nationals have left the UK during the pandemic. The ONS estimates[63] that net migration to the UK of long-term migrants, those likely to stay more than a year, fell from 293,000 in 2019 to 33,000 in 2020. Net EU migration was 32,000 in 2019, and in 2020 in net terms 94,000 people left the UK. These are experimental statistics using a new modelling approach with a wide confidence interval. Others have estimated the net migration figures to be in the hundreds of thousands[64].

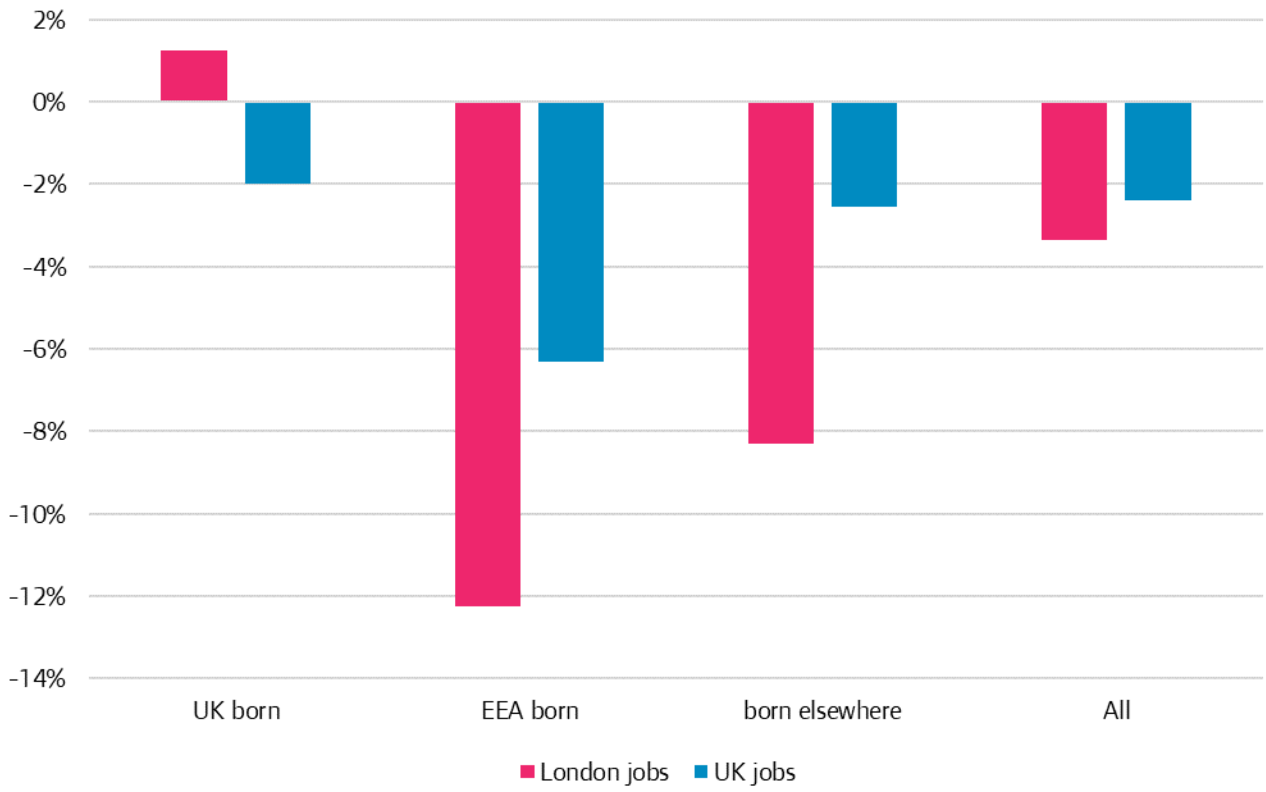
The Migration Observatory reports[65] that 3,800 EU citizens applied for long-term Skilled Worker visas[66] in the first half of 2021. The low numbers will reflect the low demand for labour at this time, a lack of willingness on the part of individuals to travel during a pandemic, as well as the impact of Brexit. 60% of all

[63] ONS (2021). 'Long-term international migration, provisional: year ending December 2020'
[64] Sumption M. (2021), Where did all the migrants go? Migration during the pandemic, The Migration Observatory, 5 February provides a discussion
[65] Strain Z and Sumption M (2021). Which Parts of the UK are Attracting the Most Skilled Workers from Overseas?. The Migration Observatory, 30 November 2021.
[66] The Skilled Worker visa is the main employer-sponsored visa for recruiting newly hired employees to work in the UK. Certificates of Sponsorship are assigned to migrants ahead of a work visa application, or an application to extend an existing visa. The analysis here is for out-of-country visa applications.

Certificates of Sponsorship[67] for EU skilled workers were assigned to people planning to work in London. This compares with 35% of non-EU citizens, who are also more concentrated in London.

Some of the EU nationals who have left the UK will have held jobs, while others will have not. Over the six quarters from 2020 Q1 to 2021 Q2 the fall in employment has disproportionately affected EU nationals. There were 12% fewer jobs in London held by people born in the EEA by the end of period, compared with 6% for the UK, while there had been a slight increase in jobs in London held by people born in the UK (Figure 3.21).

Figure 3.21: Change in jobs by country of birth, London and the UK, 2020 Q1 and 2021 Q2

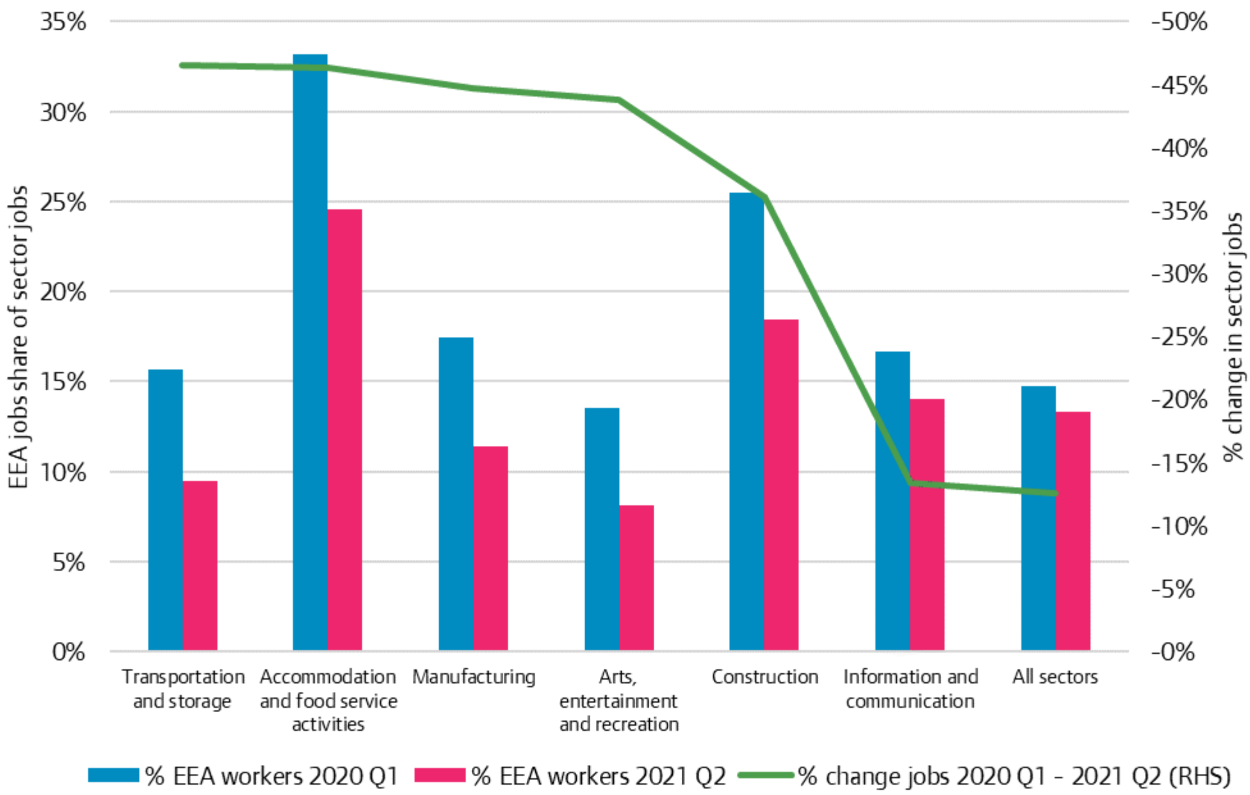


Source: ONS Annual Population Survey

Over the period 2020 Q4 to 2021 Q2 there has been a redistribution of jobs across London's sectors. The sectors proportionately losing most jobs also tend to be the sectors with a relatively high share of jobs held by EEA-born workers. Uniformly across these sectors the share of jobs held by EEA-born workers has declined (Figure 3.22). For example, the proportion of jobs in Accommodation and food services held by EEA-born workers has fallen from 33% to 25% over this period, and for Arts, entertainment and recreation the decline has been from 14% to 8%, while for London it has been from 15% to 13%.

[67] Ibid.

Figure 3.22: Change in jobs and share of EEA jobs, London and sectors losing most jobs, 2020 Q4 to 2021 Q2



Source: ONS Annual Population Survey

Note: 54% of jobs were lost in Primary & Utilities over this period. This has not been reported in the chart because of the relatively small size of this sector in London

Jobs held by EEA-born workers have risen in other sectors. In Administrative and support services the proportion of jobs held by EEA-born workers increased from 19% to 23% as the total number of jobs increased by 9%. As the sectors which contracted began to expand once again there has been a smaller pool of EEA-born workers from which to recruit because of: migration from the UK; more EEA-born workers in other sectors; and, restrictions on people entering the UK. This is hindering the recovery.

5 Conclusion

Evidence is emerging of how the TCA might be implemented in practice, and of the early effects of leaving the Single Market. There have been high profile disputes about the Northern Ireland protocol, and access to UK fishing waters which have been going on for months without being resolved. There is the potential for disputes in other areas such as Finance, and the sharing of data, which would be of more economic consequence. There are threats of escalation, which if acted upon might in due course lead to a trade war. The political environment may not be conducive to a stable business context.

As expected, the implementation of trade barriers with the EU has led to a fall in goods and services trade. By 2021 Q2 these falls seem to have stabilised, although there may be further effects as the economy restructures. Declines in trade provide a way to measure the impact of Brexit on the economy. An early and preliminary assessment suggests that it may reduce UK activity by 4% on a permanent basis and have twice the impact of the pandemic. While it is not straightforward to disentangle the effects of Brexit from the pandemic businesses are of the view that Brexit is having more impact on goods exports, and the pandemic on services exports although both types of trade are being impacted by both shocks.

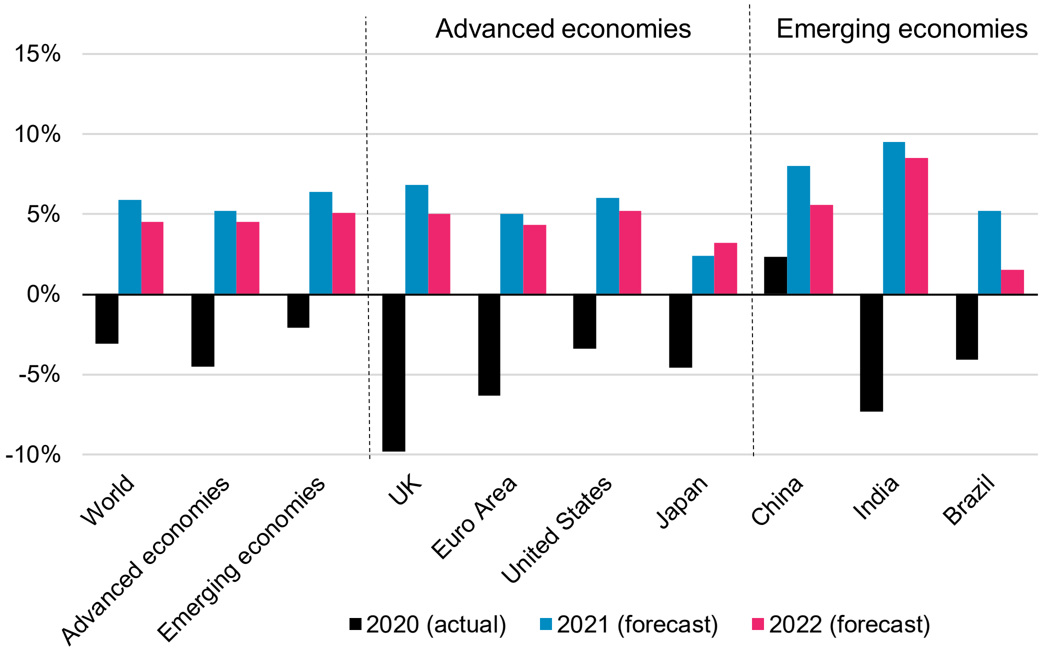
As the sectors which contracted during the pandemic began to expand once again there has been a smaller pool of EEA-born workers from which to recruit which is hindering the recovery.

3.3 The global economy

Economies across the planet contracted in 2020 with the spread of the pandemic and the introduction of public health restrictions. In 2021, the pandemic continued to have a major effect on the world's economies with differing impacts. The roll-out of vaccines in the advanced economies led to the easing of restrictions although with the Omicron variant and infection rates rising again in many countries a number have begun to reintroduce some controls. At the same time the global number of cases continues to be high with the number in emerging market countries likely being under reported.

The latest IMF World Economic Outlook[68], forecasts that the world's economy will to grow by 5.9% this year (0.1 percentage points down from its July forecast) before easing to 4.5% next year (unchanged on the previous forecast). Advanced economies are projected to expand – on average – by 5.2% this year while emerging economies will grow – on average as well - by 6.4%. This implies that the global economy is recovering from the 2020 global recession (Figure 3.23).

Figure 3.23: IMF forecasts of real GDP growth for selected economies



Source: IMF – World Economic Outlook, October 2021.

The advanced economies shrank by -4.5% on an annual basis in 2020. The IMF expects growth in 2021 of 5.2% (down 0.4 percentage points on the July 2021 forecast), with it expected to moderate to 4.5% in 2022 (up 0.1 percentage points on their last forecast). Across most advanced economies output is expected to have recovered to its pre-COVID level by 2022.

[68] IMF (2021). 'World Economic Outlook: Recovery During a Pandemic', October 2021.

Looking at the advanced economies in more detail, the **US** economy grew by 2.1% year on year in Q3 2021. This follows a year on year expansion of 6.7% in Q2 2021[69]. In November 2021, non-farm payroll employment rose by 210,000 and the unemployment rate declined to 4.2%[70]. The US President, Joe Biden, has signed a $1.2tn bill for over eight years of investment in infrastructure, and a further $1.75tn for a "Build Back Better" bill to invest in early childhood education has been passed by Congress. Looking forward the IMF expects the US economy to expand by 6.0% in 2021 (a 1.0 percentage points reduction on their July forecast) and 5.2% in 2022 (0.3 percentage points upgrade on their previous forecast).

The **Eurozone's** economy has continued to grow. In Q3 2021, GDP increased by 2.2% on a quarter-by-quarter basis, and 3.7% on an annual basis[71]. This followed growth of 2.1% in Q2 2021. The IMF forecasts that the Eurozone will grow by 5.0% in 2021 (an upgrade of 0.4 percentage points on their July forecast) and by 4.3% in 2022 (unchanged on July). Meanwhile, the European Commission forecasts growth of 5.0% in 2021, 4.3% in 2022 and 2.4% in 2023[72]. The European Central Bank (ECB) has kept interest rates on deposits negative to support the recovery but has also warned about 'exuberance' in asset markets. The EU continues to provide recovery funds to member states.

The **Japanese** economy shrank by 3.6% year-on-year in the third quarter of 2021, a worse drop than initially expected and followed on from growth in the second quarter, as shrinking domestic demand and global supply chain issues hit their recovery. In response the Japanese government has announced a ¥43.7tn (£284bn) stimulus package. Still, the IMF expects that Japan's economy will expand by 2.4% in 2021 (0.4 percentage point lower than in their previous forecast), and by 3.2% in 2022 (0.2 percentage points higher than previously forecast).

Emerging market economies

Growth in the emerging market economies is also expected this year. The IMF expects growth of 6.4% in 2021 and growth of 5.1% in 2022[73] (an upgrade of 0.1 percentage points for 2021, and a downgrade of 0.1 percentage points for 2022 on their July forecast). However, the IMF has noted that "the rapid spread of virus mutations and uneven access to vaccines pose a threat to the economic recovery"[74].

Of the major emerging markets, **China's** economy grew by just 0.2% between Q2 and Q3 in 2021. Still the IMF expects growth to be 8.0% in 2021 before slowing to 5.6% in 2022 (a downgrade of 0.1 percentage points for both years on their previous forecast). This is generally in line with the forecasts by the Asian Development Bank (ADB) that expects growth of 8.1% in 2021 and 5.5% in 2022[75].

Meanwhile, **India's** economy is estimated to have grown by 20.1% year-on-year in in the three months to June 2021 as it recovered from the outbreak of the Delta variant. Looking at the year as a whole the IMF expects growth of 9.5% in 2021, and 8.5% in 2022 (unchanged on their previous forecast). The ADB expects strong growth this year and next with growth of 10.0% in 2021 and 7.5% in 2022.

In **Russia**, the economy grew by 4.3% year-on-year in the third quarter of 2021 down from 10.5% in the second quarter. The IMF, as it does with other economies, expects growth this year and next with forecasts

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[69] Bureau of Economic Affairs (2021). 'Gross Domestic Product, Third Quarter 2021 (Second Estimate); Corporate Profits, Third Quarter 2021 (Preliminary Estimate)', 24 November 2021.
[70] US Bureau of Labor Statistics (2021). 'Employment Situation Summary', 3 December 2021.
[71] Eurostat (2021). 'GDP and employment flash estimates for the third quarter of 2021', 16 November 2021.
[72] European Commission (2021). 'Autumn 2021 Economic Forecast: From recovery to expansion, amid headwinds', 11 November 2021.
[73] IMF (2021). 'World Economic Outlook: Recovery During a Pandemic', October 2021.
[74] IMF (2021). 'Global Financial Stability Report: COVID-19, Crypto and Climate', October 2021.
[75] Asian Development Bank (2021). 'Asian Development Outlook 2021: Update', September 2021.

of 4.7% in 2021 and 2.9% in 2022 (an upgrade of 0.3 percentage points for this year and a downgrade of 0.2 percentage points for next year compared with their previous forecast).

3.4 Risks to London's economy

The outlook for the UK's economy remains very uncertain at the moment, and this situation applies to the capital as well. There are both upside and downside risks to the economy and they come from several sources. This subsection analyses the most relevant ones.

As was the case in the previous forecast, the main risk to London's economic outlook in the short to medium term is around the recovery from the COVID-19 crisis. As noted, the initial outbreak of COVID-19 and associated lockdown measures produced a historic fall in both aggregate demand and aggregate supply as a result of restrictions on mobility and economic activity and also due to a precautionary response by economic agents under a new and extraordinarily uncertain context. As these factors reduced the economy recovered, if less than fully, before weakening again during the subsequent lockdowns. Since the roll out of the vaccination programme and ending of the third lockdown, growth resumed at an initially strong rate but slowed somewhat in the third quarter of 2021. The announcement of the Omicron variant in late November adds a new level of high uncertainty to the short-term economic outlook. Although it should be noted that the spread of the Delta variant earlier in the year did not lead to the introduction of stricter public health measures due to the successful vaccine rollout, and so far the restrictions in relation to the new variant have increased over time but remain significantly below those of a full lockdown.

Still, if there are no further lockdowns due to a resurgence in infections or the impact of new variants, it is likely that business and consumer confidence will retain some strength over the coming months, although this is likely to be a bit more subdued than initially expected due to tightening restrictions. Still it is likely that consumers will continue to spend some of the savings accumulated over the last year from diminished opportunities to travel and socialise. These are thus upside potentials for the economy if these trends continue or accelerate. There are more downside risks, as noted, due to new variants, like the Omicron variant, or rising infection rates leading to either a significant loss of business and consumer confidence or the need to reimpose stringent restrictions to slow the spread of the disease. In this context there may be a challenge for interest rate setting if the Bank of England seeks to keep interest rates low or rising very gradually to promote job creation and growth, if the inflationary pressures we are currently witnessing prove more long term than currently expected. This may be exacerbated if there is a restructuring of the economy, and some unemployed people find it difficult to find work because they do not have the right skills.

In this context, labour productivity growth – which has remained below historical standards in London since the 2008-2009 financial crisis[76] - is not expected to be one of the levers of economic recovery from this crisis. On the contrary, our judgement is that it will remain weak in the medium term due to continued low private investment and a larger share of the workforce working remotely. Analysis for the GLA[77] has concluded that the Central Activities Zone will recover, but the time this takes to happen will limit the economic benefits reaped from agglomeration economies. The effects on the long-term for London's economy remain very uncertain.

A second risk factor for the evolution of London's recovery is the international context. In this sense, while some global geopolitical risks have lessened slightly compared with 2020, the world's economic outlook remains highly uncertain as already described in subsection 3.3 of this report. There are also direct losses to London from reduced tourism and trade, and it is implausible that the world's economy will fully recover from the pandemic crisis until all the world's population is vaccinated.

[76] See GLA Economics (2019). '*Productivity trends in London: An evidence review to inform the Local Industrial Strategy evidence base*'.
[77] Arup and others (2021). 'Central Activities Zone (CAZ) economic futures research', March 2021.

Another risk to London's economy is the potential adverse effects of the unprecedented expansionary monetary and fiscal policies that UK authorities undertook to mitigate the negative impact of the COVID-19 crisis. On the fiscal policy side, although the economic support packages have started to be rolled back, the projected size of the fiscal deficit in coming years and the tax take of the Government are expected to hit levels not seen for several decades. These figures represent a shock to UK public finances. There continues to be a risk of further fiscal consolidation measures, especially if, say, an increase in interest rates pushes up public sector borrowing costs, or pressures on public services leads to further public spending. The risk that current fiscal policies are withdrawn prematurely resulting in a slower economic recovery has reduced as the Chancellor announced a gradual tightening of public sector spending in the Autumn Budget although this will be combined with tax rises in the next financial year. On the monetary policy side, the Bank of England has so far maintained interest rates at historic lows, provided record liquidity to businesses, and the size of its Quantitative Easing Programme was 4.5 times larger in November 2020 than it was during the 2009 financial crisis[78]. These measures can certainly help to stimulate economic activity while in place but they also have potential adverse impacts on the economy. For example, higher inflation in particular impacting financial and real assets (including housing[79]), discouraging people from saving as negative real interest rates make consumption relatively more attractive, and the distortion of information that prices in financial markets provide naturally without intervention (i.e., prices do not reflect the actual asset risk under the current monetary expansion so riskier assets cannot be differentiated from safer assets, thus promoting non-viable investment projects eventually). Further, inflationary pressures have been rising rapidly over the later part of 2021 and if these persist not only will this lead to faster than previously expected interest rate rises but could also lead to declining real wages even as nominal wage growth picks up. This in turn could lead to pressures on consumer spending or a wage/price spiral to compensate for declining disposable incomes.

Finally, and regardless of the COVID-19 crisis, the main long-term risk to London's economy is around how the new trading arrangements between the UK and the EU will eventually affect activity in the capital. The silence of the Trade and Cooperation Agreement on measures to ease trading frictions in services from exiting the Single Market is to the detriment of the London economy which is likely to become less export-oriented as a result. As well as the longer-term implications some trade has been falling in 2021 as local businesses - especially small and medium-sized enterprises - need time and resources to adjust to the new legal framework, and some have been deterred completely from exporting. As shown in previous GLA Economics publications[80], Brexit-related uncertainty is thought to have negatively affected London's economy through lower investment, labour productivity and consumer confidence since the 2016 referendum.

3.5 Conclusion

The unprecedented fall in London's economic activity over 2020 reflected a decline in both demand and supply because of the COVID-19 pandemic. However, with the successful roll out of the vaccine programme in 2021 Government restrictions on mobility have been removed and, as economic agents responded to an increase in economic certainty, the economy began to recover.

Despite the unprecedented policy response by UK authorities all London industries were affected by the COVID-19 crisis to some extent, with some such as Accommodation and food services, and Arts and entertainment being particularly heavily hit. And although these sectors have begun to recover, the more heavily hit sectors continue to lag the recovery in the rest of the capital's economy.

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[78] Source: Bank of England.
[79] See Johnson, P. (2020). '*Ultra-low interest rates have huge consequences for the country and its citizens*'.
[80] See GLA Economics (2019). '*The economic impact of Brexit on London*'.

Looking ahead, the outlook for London's economy remains unusually uncertain as risks to the economic recovery are many and still remain skewed to the downside, especially with the emergence of the Omicron variant. Factors such as the control and end of the pandemic, the evolution of the national and global economies, the ongoing effects of Brexit and the response of economic agents to all these upcoming developments will critically determine the evolution of the capital's economy over the coming year.

Considering all these elements, GLA Economics provides its medium-term scenario-based forecasts for London's economy in Chapter 5 of this document which takes account of all social restrictions as announced by 8 December.

4. Review of independent forecasts

GLA Economics forecasts four economic indicators: workforce jobs, real GVA, private consumption (household expenditure) and household income in London. This chapter summarises the consensus view as of 8 December 2021 on the first three of these indicators[81], drawing on forecasts from outside (independent) organisations[82]. The following chapter provides a summary of GLA Economics' own projections.

All the external forecasts were produced after the March 2021 Budget and over the period March to November. Three of the four external forecasts were produced since September.

Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling, which in turn uses ONS data[83]. The source of historical data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for the absolute levels data.

Beyond the headline, both the external consensus and GLA Economics deliver forecasts for employment and output growth in six broad sectors:

- Manufacturing
- Construction
- Transportation and storage
- Distribution[84], accommodation and food service activities
- Finance and business services[85]
- Other (public & private) services[86].

It should be noted, that since our spring 2012 forecast, GLA Economics has been using the 2007 Standard Industrial Classification (SIC 2007)[87].

[81] The consensus forecast for GVA and employment is based on the latest available forecast from Cambridge Economics, CEBR, Experian and Oxford Economics.
[82] Most forecasters do not yet provide forecasts of household income, while a number of forecasters have not produced estimates of household expenditure since the onset of the pandemic.
[83] The main underlying ONS source for output is the Quarterly country and regional GDP series and the main underlying ONS source for employment is Workforce jobs by region and industry.
[84] Distribution is made from the summation of Wholesale and Retail.
[85] Business services is made from the summation of Information and Communication, Professional, scientific and technical services, Real estate, and Administrative and support service activities.
[86] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services.
[87] For more information see Appendix A of 'London's Economic Outlook: Spring 2012', GLA Economics, June 2012.

Output

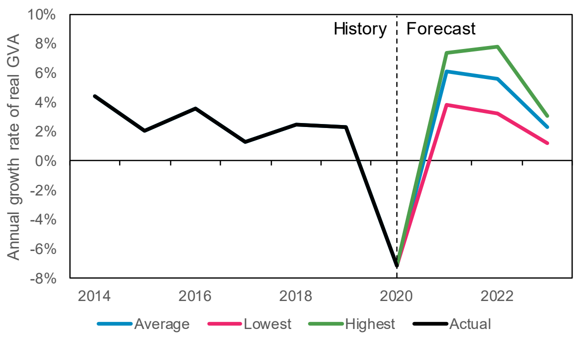
(London GVA, constant prices (base year 2018), £ billion)

The consensus (mean average) forecast puts real output growth at 6.1% in 2021, 5.6% in 2022 and by 2.3% in 2023. The consensus forecast implies a recovery to pre-pandemic levels of activity in 2022.

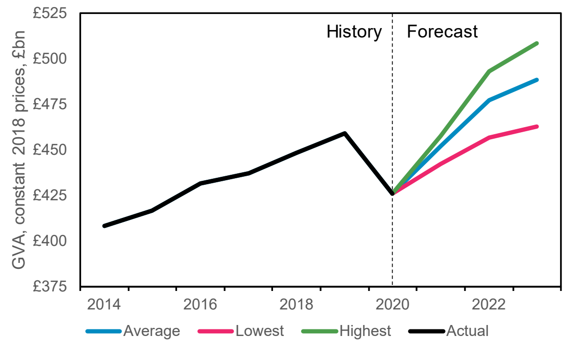
The mean estimates in May 2021 were for growth of 5.6% in 2021, 5.9% in 2022 and 2.0% in 2023. This implies that since May the consensus projection for the size of London's economy by 2023 has risen around 0.7%.

The widest range of estimates for growth comes in 2022, when there is a difference of 4.5ppts between the highest and lowest output growth estimates. The highest-growth profile would see London's economy 4.1% larger than the consensus profile by 2023. The lowest-growth profile would see London's economy 5.3% smaller than the consensus profile by 2023. The levels of output under the highest- and lowest-growth profiles differ by just under 10%. The difference between the highest and lowest profiles in May was 11.5%.

Annual growth



Level (constant year 2018, £ billion)



Annual growth (%)			
	2021	2022	2023
Average	6.1	5.6	2.3
Lowest	3.9	3.3	1.3
Highest	7.4	7.8	3.1

Level (constant 2018 prices, £ billion)			
	2021	2022	2023
Average	452.2	477.5	488.4
Lowest	442.6	457.0	462.8
Highest	457.5	493.2	508.5

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2.8	3.6	4.1	3.4	4.4	2.0	3.6	1.3	2.5	2.4	-7.1

History: Level (constant 2018 prices, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
350.9	363.5	378.2	391.2	408.4	416.8	431.8	437.4	448.4	458.9	426.2

Employment

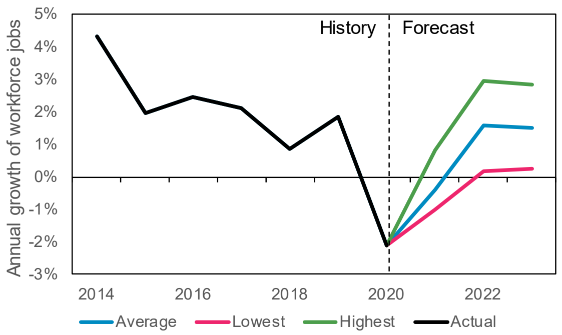
(London workforce jobs)

The consensus forecast is for a 0.4% decline in workforce jobs in 2021, followed by growth of 1.6% in 2022 and 1.5% in 2023, largely in line with historical averages since 2000. The consensus implies that job numbers will recover to pre-pandemic levels only in 2023.

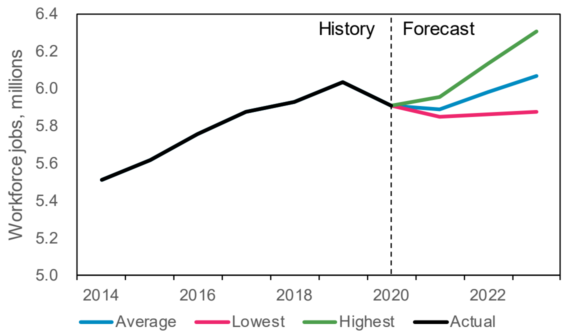
Compared to May 2021, the consensus forecast has become less negative in the near term but less positive in the medium term. The previous consensus forecast saw a 0.9% decline in jobs this year, followed by a 2.5% advance in 2022 and 1.7% in 2023. Overall, the consensus forecast for the size of the job market in London by 2023 has declined 0.8% since May 2021.

The range of estimates covers a wide variety of outcomes for London's employment. The widest range of growth projections is in 2022, with a 2.8ppt difference between the highest and lowest forecasts, but the 2.6ppt difference in 2023 is similarly wide. The lowest-growth profile offers a picture of persistent stagnation in London's job market, with employment 3.2% below the consensus level by 2023. The highest-growth profile implies two years of the strongest job growth since 2008, leaving employment 4% above the consensus by 2023. There are 7.4% more jobs in the highest-growth profile than in the lowest-growth profile by 2023, though this is in fact down from a gap of 8.3% in the May 2021 range of forecasts.

Annual growth



Level (millions of workforce jobs)



Annual growth (%)			
	2021	2022	2023
Average	-0.4	1.6	1.5
Lowest	-1.0	0.2	0.2
Highest	0.8	2.9	2.8

Level (millions of persons)			
	2021	2022	2023
Average	5.89	5.98	6.07
Lowest	5.85	5.86	5.88
Highest	5.96	6.13	6.31

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
-0.4	1.7	4.2	2.9	4.3	2.0	2.5	2.1	0.9	1.8	-2.1

History: Level (millions of persons)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
4.8	4.9	5.1	5.3	5.5	5.6	5.8	5.9	5.9	6.0	5.9

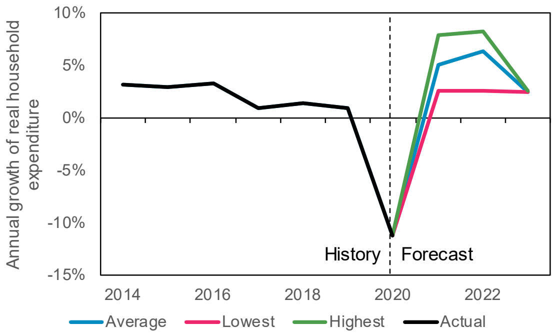
Household expenditure

The consensus forecast sees consumer spending grow 5.1% in 2021, 6.3% in 2022, which is the fastest since 2001, and 2.5% in 2023. The consensus implies that spending will recover to pre-pandemic levels in 2023.

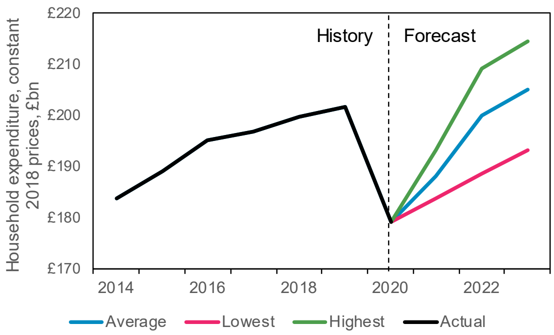
This consensus is more positive about expenditure growth than in May 2021 across the full forecast period. The consensus forecast in May anticipated growth of 2.6% in 2021, 4.0% in 2022 and 2.5% in 2023. This means the consensus forecast for total consumer spending in London by 2023 has increased by 1.7% since May.

As with employment, the highest and lowest growth estimates paint very different pictures of the outlook. The widest range of growth projections is in 2022, with a 5.7ppt difference between the highest and lowest, but the range of forecasts converges by 2023, coming back to growth near post-2000 averages. The lowest growth profile points to an ‘L-shaped’ path for consumers, with no above-average growth rebound from the collapse in spending in 2020. This profile leaves expenditure 5.8% below the consensus by 2023. Meanwhile the highest-growth path sees spending recover to pre-pandemic levels by 2022, with spending 4.6% above consensus by 2023. Overall, expenditure by 2023 is over 11% higher in the highest-growth profile than in the lowest-growth profile, from a range of nearly 12% in May.

Annual growth



Level (constant 2018 prices, £ billion)



Annual growth (%)			
	2021	2022	2023
Average	5.1	6.3	2.5
Lowest	2.6	2.6	2.5
Highest	7.9	8.3	2.6

Level (constant year 2016, £ billion)			
	2021	2022	2023
Average	188.1	200.0	205.0
Lowest	183.7	188.5	193.2
Highest	193.3	209.2	214.6

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2.4	0.0	2.1	2.8	3.2	2.9	3.2	0.9	1.4	1.0	-11.2

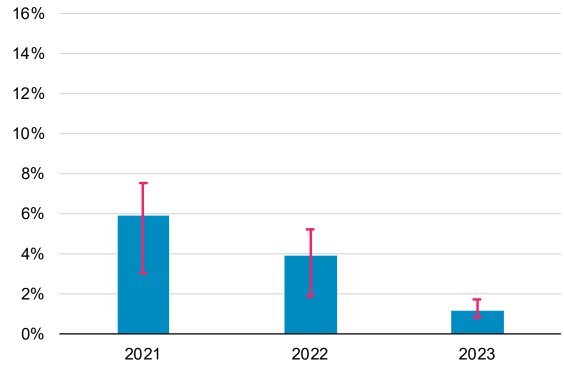
History: Level (constant 2018 prices, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
169.6	169.6	173.2	178.0	183.7	189.0	195.1	196.9	199.7	201.6	179.0

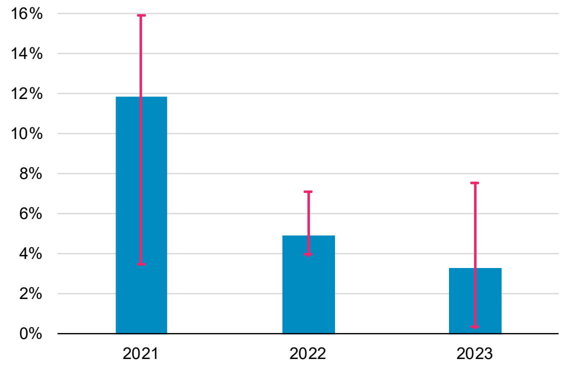
Output growth by sector

The consensus forecast sees output growing in all sectors of London's economy across 2021 to 2023. The fastest growth is expected in the Construction sector in 2021 (11.9%), but this also has the widest range of estimates. The Distribution, accommodation and food services sector has the highest cumulative average growth of 7.5% per year from 2021 to 2023.

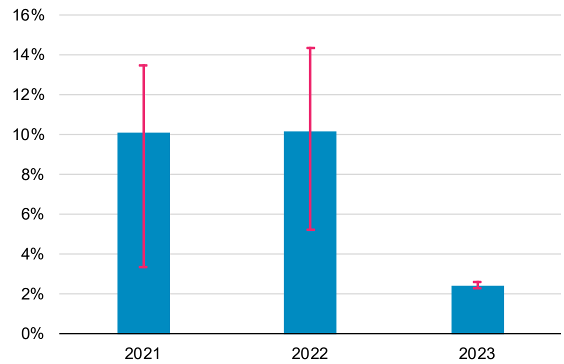
Manufacturing



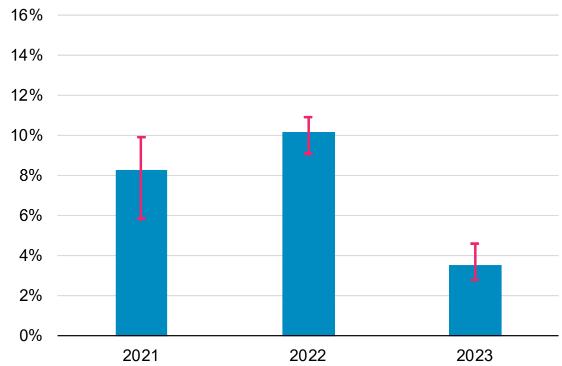
Construction



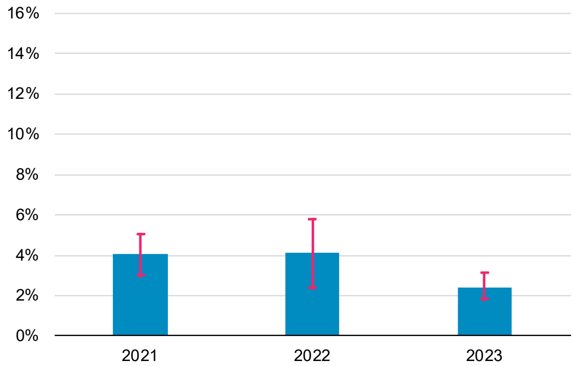
Distribution, accommodation and food service activities



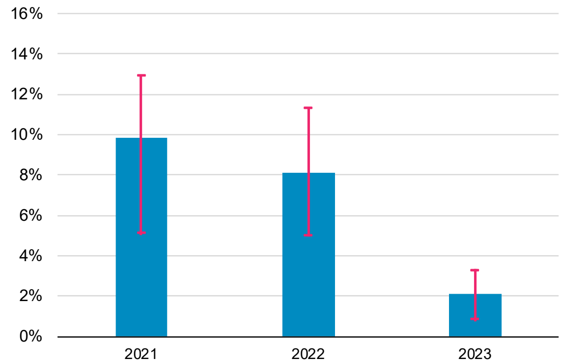
Transportation and storage



Finance and business



Other services (public and private)

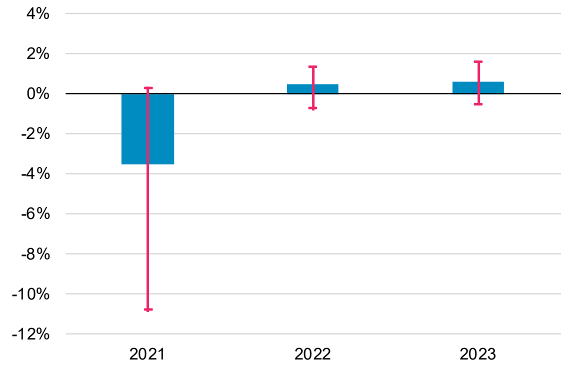


		2021	2022	2023			2021	2022	2023
Manufacturing	Average	5.9	3.9	1.2	**Construction**	Average	11.9	4.9	3.3
	Lowest	3.0	1.9	0.8		Lowest	3.5	3.9	0.3
	Highest	7.5	5.2	1.7		Highest	15.9	7.1	7.5
Distribution, accomodation & food services	Average	10.1	10.2	2.4	**Transportation and storage**	Average	8.3	10.1	3.5
	Lowest	3.3	5.2	2.3		Lowest	5.8	9.1	2.8
	Highest	13.5	14.3	2.6		Highest	9.9	10.9	4.6
Finance and business	Average	4.0	4.1	2.4	**Other services (public and private)**	Average	9.8	8.1	2.1
	Lowest	3.0	2.4	1.8		Lowest	5.1	5.0	0.8
	Highest	5.0	5.8	3.1		Highest	12.9	11.3	3.3

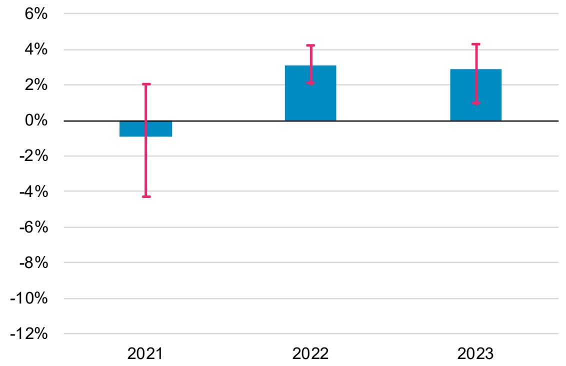
Employment growth by sector

The consensus forecast sees a contraction in employment in most sectors in 2021, followed by steady growth in 2022 and 2023. The fastest growth is expected in Construction in 2022 (3.1%) and the deepest contraction is expected in the Manufacturing sector in 2021 (-3.5%). Other services have the highest cumulative average growth of 1.8% per year 2021 to 2023.

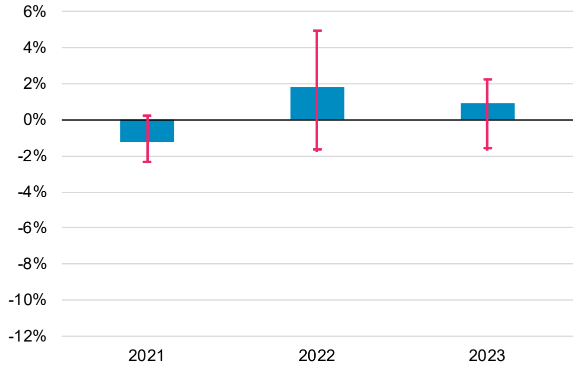
Manufacturing



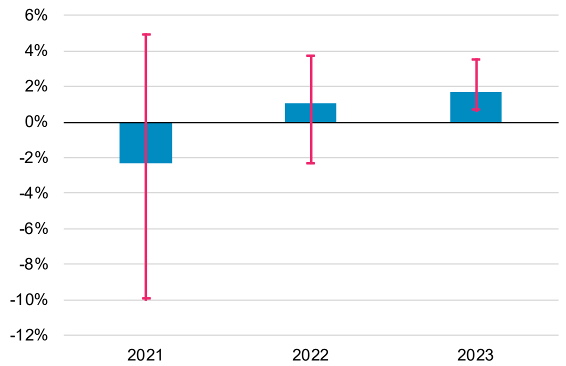
Construction



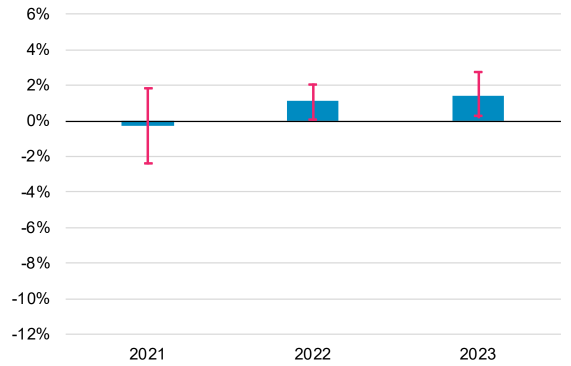
Distribution, accommodation and food service activities



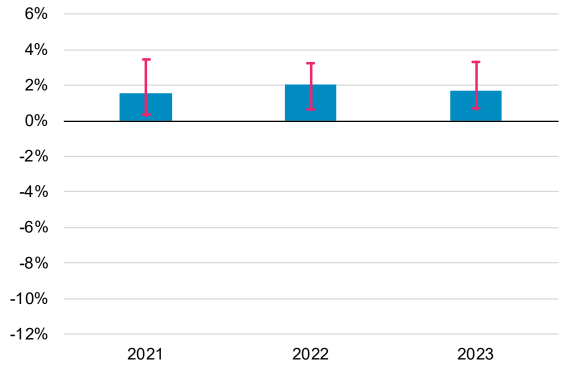
Transportation and storage



Finance and business



Other services (public and private)



		2021	2022	2023			2021	2022	2023
Manufacturing	Average	-3.5	0.4	0.6	**Construction**	Average	-0.9	3.1	2.9
	Lowest	-10.8	-0.7	-0.5		Lowest	-4.3	2.1	0.9
	Highest	0.3	1.3	1.6		Highest	2.0	4.2	4.3
Distribution, accomodation & food services	Average	-1.2	1.8	0.9	**Transportation and storage**	Average	-2.3	1.0	1.7
	Lowest	-2.4	-1.7	-1.6		Lowest	-10.0	-2.3	0.6
	Highest	0.2	4.9	2.2		Highest	4.9	3.7	3.5
Finance and business	Average	-0.3	1.1	1.4	**Other services (public and private)**	Average	1.5	2.1	1.7
	Lowest	-2.4	0.0	0.2		Lowest	0.3	0.6	0.7
	Highest	1.8	2.0	2.7		Highest	3.4	3.2	3.3

5. The GLA Economics reference forecast

For business planning purposes (for example, the likely course of revenue), estimates of job numbers and output at a range of points in time are required. The medium-term planning projections (this forecast) provide those estimates.

This forecast differs from the GLA's long-term employment projections[88], which are trend-based. Trend projections, by definition, do not incorporate cyclical variations and the actual course of output and employment will vary around this trend. While trend projections are essential for planning to provide capacity (such as office space, housing and transport), accommodating the needs of the economy throughout and at the peak of the cycle, business planning requires estimates of actual economic aggregates, including cyclical paths.

As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing, or new trends are being established.

The source for historic data in the below tables and charts is GLA Economics modelling using ONS data.

As in the Spring 2021 LEO[89] this analysis includes a measure of uncertainty around the central scenario using alternative scenarios developed by GLA Economics. The upside scenario sees a faster economic recovery as more confident consumers spend a larger share of the excess savings built up over the pandemic. Our downside scenario sees a slow economic recovery, as fresh lockdown measures prompt another contraction in early 2022, before high inflation drags on real household spending power. The prolonged slowdown also means deeper scarring on medium-term output and job growth.

5.1 Results

London's economic output had been growing every year from 2010 to 2019 before a major contraction in 2020. Our baseline central scenario, which is consistent with Bank of England and OBR projections, suggests that a firm recovery in output has been underway in 2021, and we expect output to regain its losses from 2020 by early next year.

However, running against these positive points, the Bank of England downgraded its long-term projections for UK output in the November Monetary Policy Report. Consistent with this approach, we now see a medium-term gap of around 1.5% opening by 2023 between the central scenario for London's output and our pre-pandemic forecasts, compared to a 0.7% gap in August.

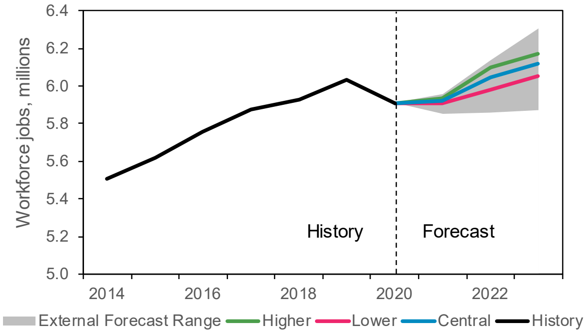
On the employment side, our forecast has improved since the Spring LEO. Initial indications of a limited impact from the end of furlough mean that we see total jobs rising modestly this year. However, a slow pace of growth in the medium term mean we continue to expect a full recovery to take until 2023.

We also expect household income and spending to grow every year across the forecast period. However, the sharp acceleration of inflation since the May 2021 forecast means that we now expect a slower path for real incomes among Londoners. Despite this, the much stronger employment outlook, signs of an improvement in consumer confidence since May and a more front-loaded output recovery mean that we expect strong consumer spending growth this year and in 2022.

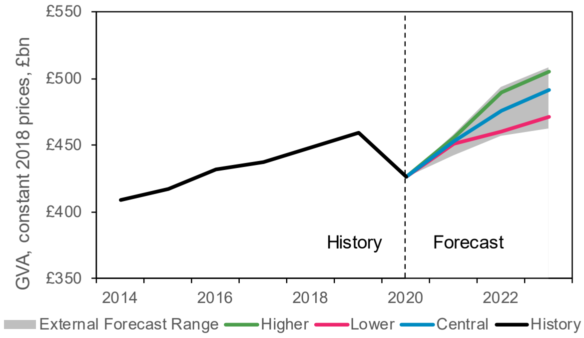
[88] GLA Economics (2017). 'London labour market projections 2017'.
[89] GLA Economist (2021). 'London's Economic Outlook: Spring 2021'

Figure 5.1: GLA Economics' forecasts and scenarios for employment and output

Employment



Output



Source: GLA Economics estimates for historic data and GLA Economics calculations for forecast

Table 5.1: Central scenario-based forecast and historical growth rates

(Annual % change)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
GVA	2.0	3.6	1.3	2.5	2.4	-7.1	6.4	5.0	3.1
Workforce jobs	2.0	2.5	2.1	0.9	1.8	-2.1	0.2	2.1	1.2
Household spending	2.9	3.2	0.9	1.4	1.0	-11.2	6.0	7.1	2.4
Household income	7.6	2.0	0.2	3.3	2.1	1.4	1.0	0.5	2.6

Table 5.2: Scenario-based forecast and historical levels

(constant 2018 prices, £ billion except jobs)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
GVA	416.8	431.8	437.4	448.4	458.9	426.2	453.3	476.1	491.1
Workforce jobs (millions)	5.6	5.8	5.9	5.9	6.0	5.9	5.9	6.0	6.1
Household spending	189.0	195.1	196.9	199.7	201.6	179.0	189.8	203.2	208.1
Household income	243.9	248.8	249.2	257.4	262.9	266.7	269.5	270.8	277.9

Output

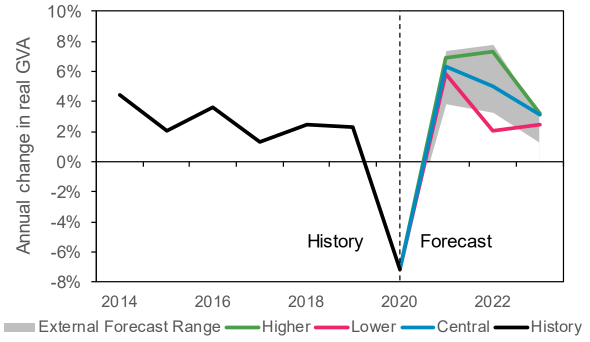
(London GVA, constant prices (base year 2018), £ billion)

GLA Economics forecasts London's real GVA to grow 6.4% this year, followed by growth of 5.0% in 2022 and 3.1% in 2023. Our forecast profile is consistent with a recovery to pre-pandemic levels of activity by early 2022.

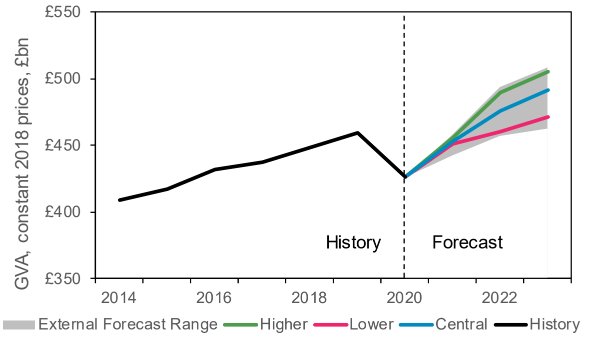
This profile involves a more rapid 2021 recovery than in our Spring LEO forecast, but a weaker profile for 2022 amid renewed virus concerns. Our forecast in May 2021 was for growth of 5.4%, 6.9%, and 3.1% in 2021, 2022 and 2023 respectively. As a result, while the near-term recovery is faster under the new forecast, the level of output by 2023 is around 0.8% smaller, broadly in line with the downgrade to the Bank of England's long-term output projections.

Under all the scenarios, London's economy has largely recovered its 2019 level at some time in 2022. However, the profiles otherwise differ widely. While our upside scenario could see a consumer-led boom pushing growth even higher in 2022 than in 2021, the downside scenario's contraction early in the year pushes 2022 growth to below the slowest pace projected by external forecasters. As a result, the upside scenario's projected level of output by 2023 is around 7.5% above the level projected in the downside scenario.

Annual growth (%)



Level (constant 2018 prices, £ billion)



Growth (annual %)				
	2020	2021	2022	2023
Gradual return to economic recovery	-7.1	6.4	5.0	3.1
Fast economic recovery		7.0	7.4	3.3
Slow economic recovery		5.8	2.0	2.5

Level (constant 2018 prices, £ billion)				
	2020	2021	2022	2023
Gradual return to economic recovery	426.2	453.3	476.1	491.1
Fast economic recovery		455.8	489.4	505.3
Slow economic recovery		451.0	460.2	471.5

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2.8	3.6	4.1	3.4	4.4	2.0	3.6	1.3	2.5	2.4	-7.1

History: Level (constant 2018 prices, £ billion)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
350.9	363.5	378.2	391.2	408.4	416.8	431.8	437.4	448.4	458.9	426.2

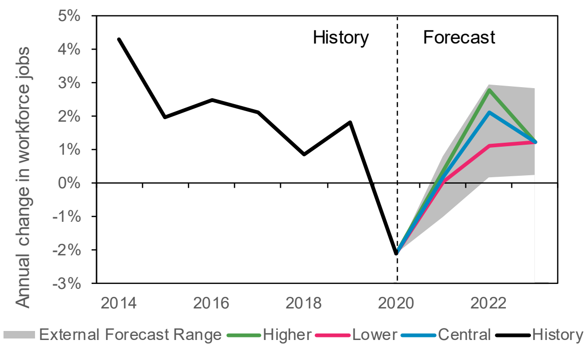
Employment
(London workforce jobs)

GLA Economics projects London's workforce jobs to tick up 0.2% in 2021, before growing 2.1% in 2022 and 1.2% in 2023. As a result, we expect London's workforce jobs to take until early 2023 to recover fully.

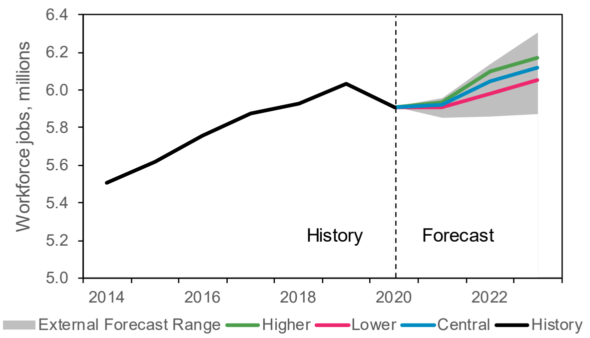
In the short term this outlook is a significant improvement on our forecast from the Spring LEO, which anticipated a 3.6% decline in employment this year. However, in the medium term we now expect slower growth than the 2.9% in 2022 and 4.2% in 2023 set out in May. While the employment recovery may now be completed earlier in 2023 than previously anticipated, the forecast anticipates a similar number of jobs in the medium term.

The range across our employment scenarios is similar to the Spring LEO scenarios. The fast recovery scenario sees around 2% more jobs by 2023 than the slow recovery scenario, from 1.9% in May. However, the May forecast involved a range of almost 3% in 2022, whereas this edition of the forecast implies a difference of around 2%. This is consistent with the fact that employment has proven resilient to recent disruptions in activity, so we think the key risk is for a limited 2022 rebound, rather than a sharp near-term drop.

Annual growth (%)



Level (millions of workforce jobs)



Growth (annual %)				
	2020	2021	2022	2023
Gradual return to economic recovery	-2.1	0.2	2.1	1.2
Fast economic recovery		0.4	2.8	1.2
Slow economic recovery		0.0	1.1	1.2

Level (millions of workforce jobs)				
	2020	2021	2022	2023
Gradual return to economic recovery	5.9	5.9	6.0	6.1
Fast economic recovery		5.9	6.1	6.2
Slow economic recovery		5.9	6.0	6.1

History: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
-0.4	1.7	4.2	2.9	4.3	2.0	2.5	2.1	0.9	1.8	-2.1

History: Level (millions of persons)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
4.8	4.9	5.1	5.3	5.5	5.6	5.8	5.9	5.9	6.0	5.9

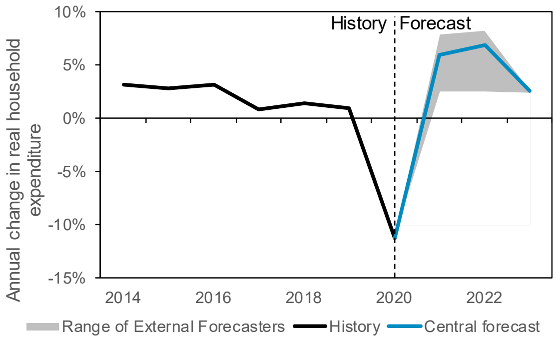
Household expenditure

(London household spending, constant prices (base year 2018), £ billion)

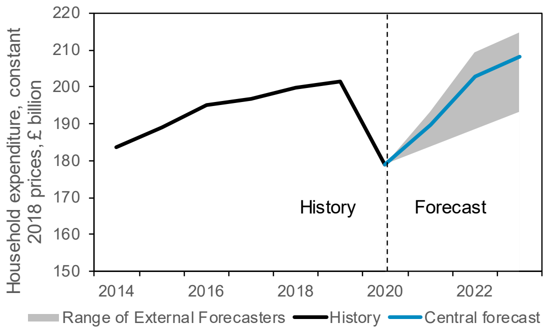
The forecast anticipates consumer spending growth of 6.0% in 2021, following the 11.2% drop in 2020. We then expect expenditure growth to accelerate to 6.9% in 2022, before easing back towards longer-term averages with growth of 2.6% in 2023. This implies household spending is set to recover in 2022.

This positions the central forecast towards the upper end of the range of external forecasters. However, the forecast is largely in line with an average that adjusts for inflation forecast revisions and excludes the oldest projections, which were put together before the latest rounds of national and regional data. It is also an upgrade on the forecast from the Spring LEO, which anticipated growth of 2.5% in 2021, followed by 4.1% in 2022 and 2.2% in 2023. As a result, we see spending recovering a year earlier.

Annual growth (%)



Level (constant year 2018, £ billion)



History: Annual growth (%)

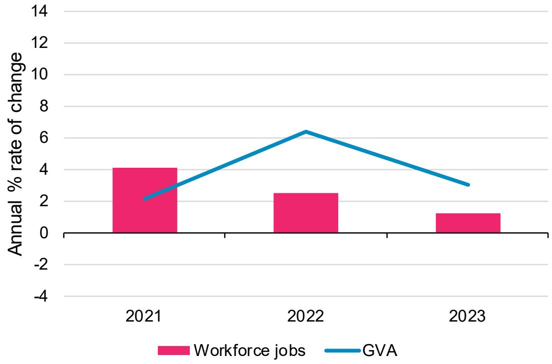
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
2.4	0.0	2.1	2.8	3.2	2.9	3.2	0.9	1.4	1.0	-11.2

History: Level (constant year 2018, £ billion)

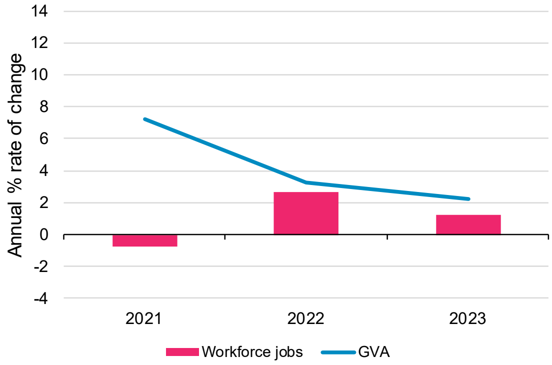
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
169.6	169.6	173.2	178.0	183.7	189.0	195.1	196.9	199.7	201.6	179.0

Output and employment growth by sector (% annual change)

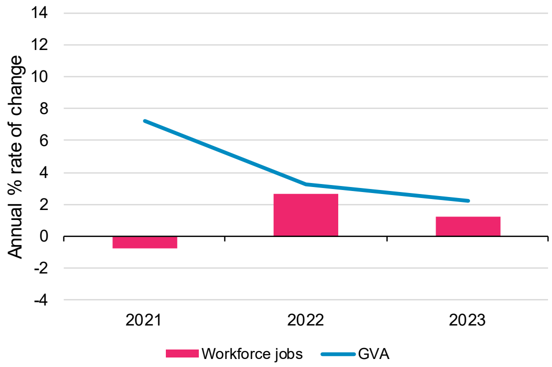
Financial services



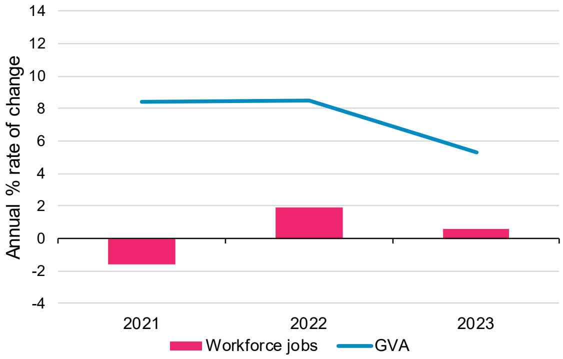
Business services



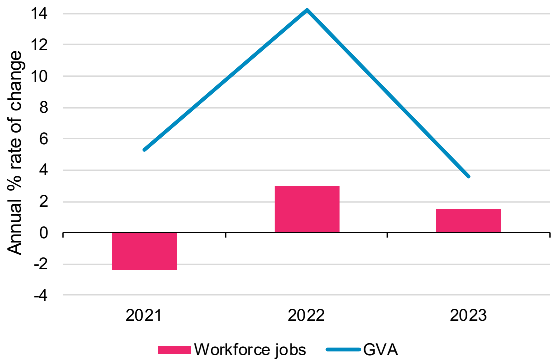
Finance and business (combined)



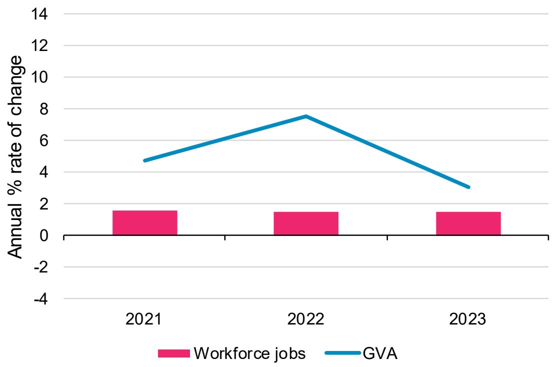
Distribution, accommodation and food services activities



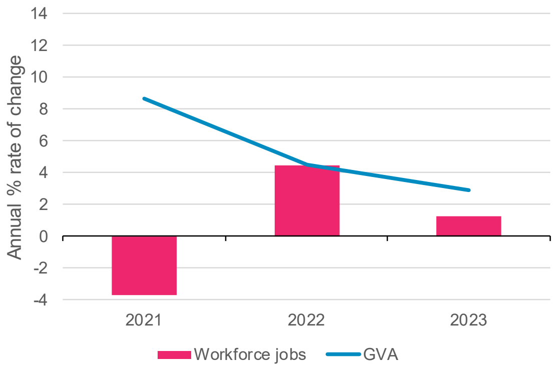
Transportation and storage



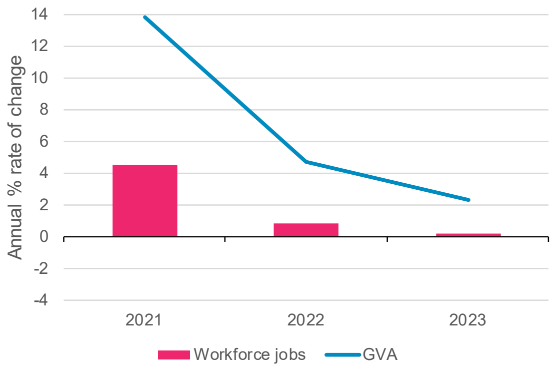
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector (% annual change)

Main sector	2021	2022	2023
Financial services			
Output	2.2	6.4	3.0
Jobs	4.1	2.5	1.2
Business services			
Output	7.2	3.3	2.2
Jobs	-0.8	2.7	1.2
Financial and business services combined			
Output	6.0	4.0	2.4
Jobs	0.0	2.7	1.2
Distribution, accommodation and food service activities			
Output	8.4	8.5	5.3
Jobs	-1.6	1.9	0.6
Transportation and storage			
Output	5.3	14.2	3.6
Jobs	-2.4	3.0	1.5
Other (public & private) services			
Output	4.7	7.5	3.0
Jobs	1.6	1.5	1.5
Manufacturing			
Output	8.7	4.5	2.9
Jobs	-3.7	4.5	1.3
Construction			
Output	13.8	4.7	2.3
Jobs	4.5	0.8	0.2
(Memo: non-manufacturing)			
Output	6.3	5.4	2.9
Jobs	0.3	2.1	1.2

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparisons in Figures 5.2 and 5.3.

It should also be noted that the large variation seen in the forecasts produced in 2020 and 2021 compared to previous forecasts reflect the challenges of undertaking economic forecasts in an environment of unprecedented uncertainty and reflects in part the evolving knowledge of public health and economic policy responses.

Workforce jobs

The level of London's workforce jobs is only expected to reach its 2019 level in 2023. The medium-term profile of the forecast is similar to the May 2021 forecast, but a significant improvement on the trajectory of the two forecasts constructed in 2020. This reflects the successive extensions of the furlough scheme and the evidence in recent months of limited job disruption from the end of the scheme.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(thousands of workforce jobs)

Source: ONS, GLA Economics; Note: grey lines show job levels under historic GLA Economics forecasts of employment growth. The last five GLA Economics forecasts are also shown (and labelled) in colour.

Table 5.3: Comparisons with previous published forecasts[90]

(London workforce jobs, % annual growth)

Forecast	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Dec-21	**-2.3%**	**-0.4%**	**1.7%**	**4.2%**	**2.9%**	**4.3%**	**2.0%**	**2.5%**	**2.1%**	**0.9%**	**1.8%**	**-2.1%**	**0.2%**	**2.1%**	**1.2%**
May-21													-3.6%	2.9%	4.2%
Dec-20												-1.1%	-4.6%	3.0%	
Jun-20												-7.0%	1.4%	4.9%	
Dec-19											1.5%	0.1%	0.7%		
Jun-19											0.8%	0.7%	0.8%		
Nov-18										1.5%	0.5%	0.7%			
May-18										0.6%	0.3%	0.7%			
Nov-17									1.4%	0.3%	0.5%				
Jun-17									0.7%	0.5%	0.7%				
Nov-16								2.5%	1.2%	0.3%					
May-16								0.7%	0.7%	0.7%					
Nov-15							1.7%	1.2%	0.7%						
May-15							1.7%	1.2%	0.7%						
Nov-14						4.5%	1.2%	0.7%							
May-14						1.6%	0.7%	0.5%							
Nov-13					1.3%	0.8%	0.7%								
Jul-13					0.6%	0.7%	0.7%								
Nov-12				1.0%	0.2%	0.4%									
Jun-12				0.2%	0.4%	0.6%									
Nov-11			0.1%	0.4%	0.4%										
May-11			0.1%	0.7%	0.8%										
Oct-10		-0.6%	0.6%	1.0%											
Jun-10		-0.8%	0.8%	1.1%											
Oct-09	-3.4%	-2.3%	-0.6%												
Apr-09	-3.8%	-2.2%	-0.4%												
Oct-08	-1.1%	0.0%													
May-08	-0.1%	0.1%													
Oct-07	1.0%														
Apr-07	1.5%														

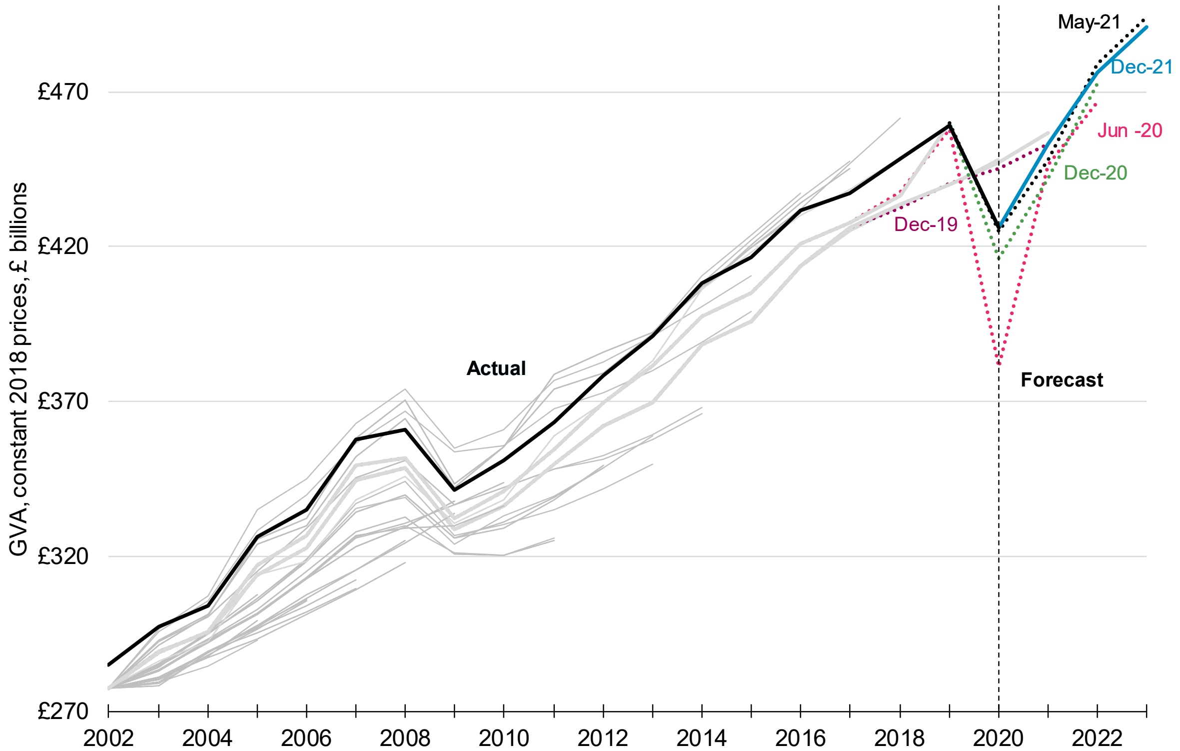
Source: ONS, GLA Economics

[90] This table only reports forecasts for 2009 onwards unlike Figure 5.2. For earlier GLA Economics' forecasts please see previous editions of London's Economic Outlook.

Output

The most recent medium-term scenario-based forecast for London's GVA level has output somewhat lower than the May 2021 scenario-based forecast, but above the June and December 2020 forecasts. The historic level of London's GVA has also been revised upward before 2019, leaving growth in 2019 more moderate than reported in previous LEO editions. A slightly stronger profile in 2021 reflects the limited effect on London's GVA from the third national lockdown in late 2020 and early 2021, while the lower medium-term forecast is consistent with revisions to national-level forecasts.

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant prices (base year 2018), £ billion)



Source: ONS, ESCoE, GLA Economics; Note: the grey lines show levels of GVA given historic GLA Economics forecasts of GVA growth. The last five GLA Economics forecasts are also shown (and labelled) in colour.

Table 5.4: Comparisons with previous published forecasts[91]
(London GVA, % annual growth)

Forecast	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Dec-21	**-5.4%**	**2.8%**	**3.6%**	**4.1%**	**3.4%**	**4.4%**	**2.0%**	**3.6%**	**1.3%**	**2.5%**	**2.4%**	**-7.1%**	**6.4%**	**5.0%**	**3.1%**
May-21													5.4%	6.9%	3.1%
Dec-20												-9.5%	6.2%	6.9%	
Jun-20												-16.8%	17.2%	4.5%	
Dec-19											1.8%	1.1%	1.8%		
Jun-19											1.5%	1.6%	2.2%		
Nov-18										1.9%	1.6%	1.9%			
May-18										1.6%	1.9%	2.2%			
Nov-17									2.1%	1.8%	2.6%				
Jun-17									2.3%	2.4%	2.9%				
Nov-16								2.8%	2.0%	2.3%					
May-16								2.9%	3.4%	3.3%					
Nov-15							3.4%	3.2%	2.7%						
May-15							3.6%	3.2%	2.5%						
Nov-14						4.8%	3.3%	3.1%							
May-14						3.8%	3.2%	2.6%							
Nov-13					2.2%	2.5%	2.5%								
Jul-13					1.9%	2.4%	2.5%								
Nov-12				0.9%	1.8%	2.4%									
Jun-12				1.2%	1.9%	2.5%									
Nov-11			1.4%	2.0%	2.4%										
May-11			2.0%	2.6%	2.9%										
Oct-10		1.6%	2.4%	2.9%											
Jun-10		1.0%	2.8%	3.3%											
Oct-09	-3.5%	-0.2%	1.5%												
Apr-09	-2.7%	-0.2%	1.7%												
Oct-08	0.2%	1.9%													
May-08	1.8%	2.2%													
Oct-07	2.6%														
Apr-07	3.0%														

Source: ONS, ESCoE, GLA Economics

[91] This table only reports forecasts for 2009 onwards, unlike Figure 5.3.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report 'employment' refers to 'workforce jobs' and uses the ONS historical series as a base for the forecast.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

At the time of writing national statistics estimates of real regional GVA are available up to 2018 from the ONS[92]. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases, the expenditure of non-profit organisations is included and in other cases it is not.

[92] ONS Regional GVA (balanced approach).

Appendix B: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
BoE	Bank of England
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
Fed	Federal Reserve
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HM Treasury	Her Majesty's Treasury
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
m	Million
MPC	Monetary Policy Committee
OBR	Office for Budget Responsibility
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
TfL	Transport for London

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