GLAECONOMICS

London's Economy Today

Issue 245 | January 2023

Inflation turning a corner, but households still face pinch points ahead

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

Consumer Price Index (CPI) inflation eased for a second consecutive month in December, according to the Office for National Statistics' (ONS) latest release. But at 10.5% year on year, headline CPI price growth remains near the highest level in 40 years. The latest data offers some key positives for the path of inflation ahead, but projections suggest that even as inflation falls, real incomes are likely to trough later this year.

The modest deceleration in headline inflation (from 10.7% in November) was mostly driven by vehicle fuel as falling global oil prices feed through into pump prices. Global prices for Brent crude oil have fluctuated between around $75 to $85 per barrel since late November, some of the lowest steady levels since a year ago. If this continues, vehicle fuel should soon become an outright drag on the headline inflation figure.

As has been the case for several months, the main contribution to inflation came from household energy costs, with bills around 90% above their level a year earlier, even with the Energy Price Guarantee (EPG). The outlook for this area of inflation is clearly downward. Global gas prices have been falling firmly since mid-December, with UK-cleared prices down by around a half. If this trend continues, industry experts Cornwall Insight project that the standard Ofgem price cap could come below the new level of the EPG by July (Figure 1).

Also in this issue

Datastore

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

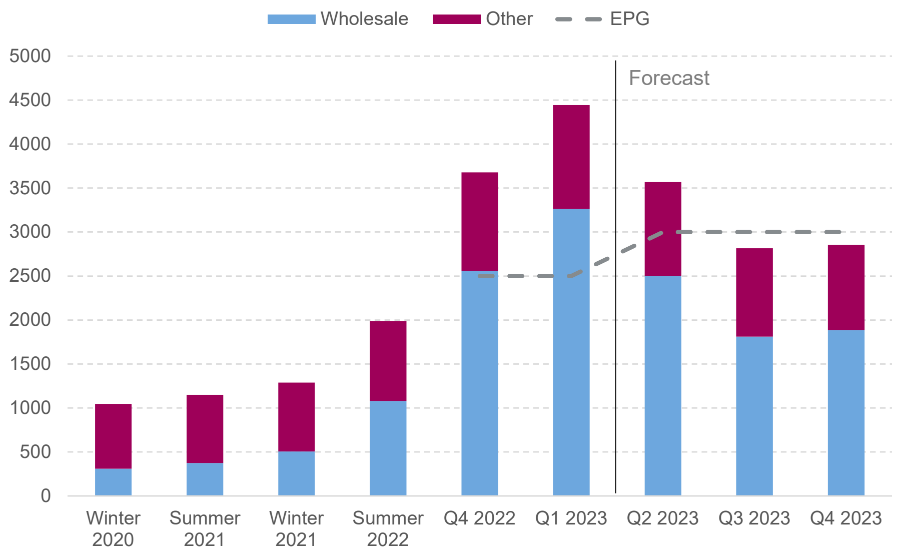


Figure 1: Cornwall Insight estimates of the Ofgem price cap, previous and projected

Source: Cornwall Insight; Note: EPG stands for Energy Price Guarantee, which rises from April to a level in line with average annual bills of £3000. 'Other' includes various costs passed on to households including VAT, a portion of operating costs, network costs and others.

Yet even if the contribution of energy to inflation is set to start easing sharply from some time in the spring or summer, household bills will still be at record levels – and higher than they are now. The average annual bill of around £2,800 that Cornwall Insight project is still 12% above the current estimated bill on the Energy Price Guarantee, and universal energy bill support payments will come to an end in April. Our polling already showed in October that 44% of Londoners would either "definitely" or "probably" struggle to meet their energy bills over the following six months. With tariffs set to rocket another 20% in April, before hopefully easing to levels still above their present rates, this presents a steep challenge to households, especially at the bottom of the income scale. London households on average devote less of their spending to energy than in the wider UK. But data from the Bank of England/NMG household survey showed that 13% of Londoners were already falling behind on energy bills in 2022, compared to 9% across the UK on average.

Real incomes haven't bottomed out yet

Alongside price data, the ONS released fresh labour market data this month, with payroll employment and pay figures including a regional breakdown. While our Labour Market Update, released alongside the data, includes a full analysis of these figures, one figure stood out in terms of its relevance to the cost of living crisis. Real median wages in London are currently falling 1.5% year on year, in line with the national figure of around -1.4%.

While wages failing to keep pace with inflation might help prevent a longer inflation overshoot as firms hike prices once again to compensate for the higher payroll costs, it is also placing further strain on household finances. The Resolution Foundation's Living Standards Outlook 2023 included a set of projections for UK real income growth across the distribution – and taking account of different inflation experiences by households with different incomes. The results make for sobering reading, with the bulk of households still to see real incomes trough between April 2023 and March 2024. Almost no-one across the income distribution will see their incomes back to 2019-20 levels within the next three years. And those at the bottom of the income scale are set to see their incomes hover around this year's trough for some time (Figure 2).

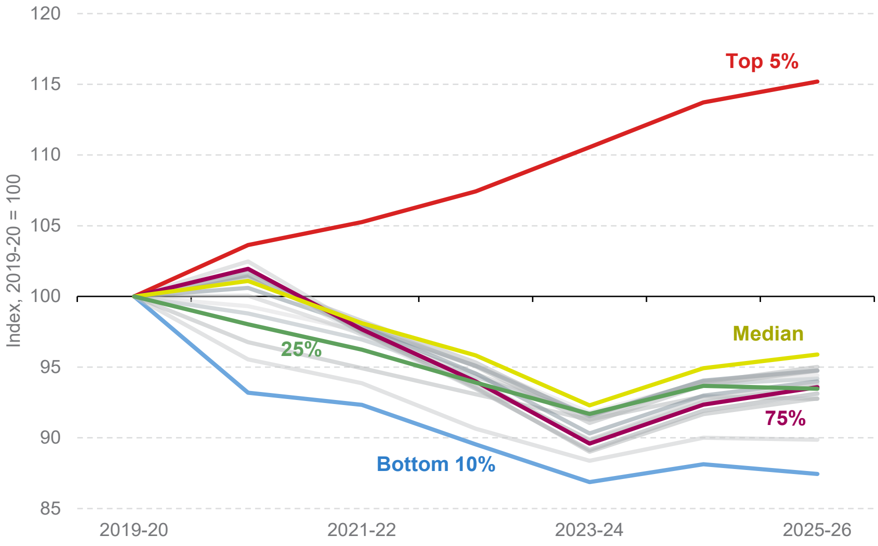


Figure 2: Resolution Foundation estimates of real income growth across the distribution

Source: Resolution Foundation Living Standards Outlook 2023; Note, figures are presented for fiscal years, rather than calendar years.

UK economy unexpectedly grew in November

The UK economy unexpectedly grew in November 2022, against the expectations of most commentators. Data from the ONS showed UK GDP grew by 0.1% in November from October. Despite this monthly growth, UK GDP remains 0.3% below its pre-pandemic level in February 2020 (Figure 3).

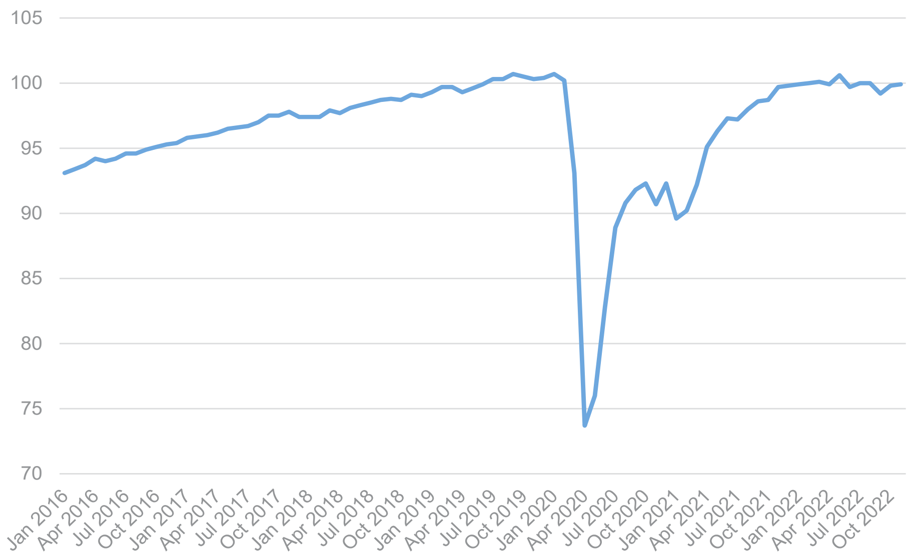


Figure 3: UK monthly GDP- Monthly index, January 2016 to November 2022, UK
Index 2019 = 100

Source: ONS.

The services sector saw growth of 0.2% in November with output in the consumer facing services growing by 0.4%. However, output in construction was flat in the month and production output fell by 0.2%.

Although monthly GDP grew in November, data for the three months to November 2022 showed it fell by 0.3% compared to the three months to August 2022. In these three months only construction increased by 0.3%, while services fell by 0.1% and production fell by 1.4%. Looking forward a survey of 101 economists by the Financial Times found that most of them expected the current inflationary shock to last longer in the UK than in other countries. They also expected output to lag with the majority expecting it to fall for much of 2023.

Retail sales volumes fall in November

In an indication of the continuing problems faced by retailers as the cost of living crisis bites ONS data published in January showed that the volume of retail sales fell by 1% in December. This followed on from a drop of 0.5% in November. Sales volumes are 1.7% below their February 2020 pre-pandemic levels, although sales values are 13.6% higher indicating the impact of rising prices on sales. Non food store sales fell by an even greater extent in December with them declining by 2.1%. The ONS noted that this continued "feedback from retailers and other wider evidence that consumers are cutting back on spending because of increased prices and affordability concerns". Looking forward the British Retail Consortium (BRC) expects the first half of the year to be challenging before picking up in the second half of 2023. It forecasts sales to rise by only 2.3% in the first half of the year but this could improve to 4.7% in the second half of the year.

UK businesses face a challenging start to 2023

SMEs are also facing a challenging start to the year, with a survey by the Association of Chartered Certified Accountants and the Corporate Finance Network finding that the numbers planning to expand had fallen from 38% last summer to 17% now. Further only 10% of SMEs in London plan to recruit new staff in 2023, although this was the highest of the surveyed UK regions. Surveyed company bosses in particular raised concerns around energy costs which they expect to remain high with state support being cut back from April. Repaying debts accrued during the pandemic was also a concern for a number of surveyed SMEs.

More widely, a survey for the Bank of England has found that UK firms are cutting back on investment due to rising UK interest rates. Thus, respondents to the Bank's decision makers panel said that they would reduce investment by 8% compared to a situation where rates had not increased. There was also an increase in wage growth expectations which may place pressure on the Bank's Monetary Policy Committee to further increase interest rates. More increases in interest rates will further dampen UK business investment which was already low. Thus, analysis by the Financial Times found that business investment was 8.1% below its pre-pandemic level in the third quarter of 2022 and 6.4% below the second quarter of 2016 when the Brexit vote took place.

The impact of Brexit also remains a drag on trading firms with a survey for the British Chambers of Commerce finding that 77% of firms affected by the Brexit deal saying it was not helping them increase their sales. While 56% said they were having difficulties adapting to the new trading rules.

Signs of a spring thaw for the global economy?

A mix of improving surveys, a likely IMF forecast upgrade and political pronouncements at Davos have fostered a sense that the downside risks for the global economic outlook may be easing.

In Europe, the German ZEW gauge of investor sentiment turned positive this month for the first time since the invasion of Ukraine, as improving energy costs and government policy helped ease economic gloom. German GDP growth for 2022 also came in marginally ahead of expectations, with stagnation rather than decline in the final quarter of the year. Professional forecasters are now also projecting that the eurozone is likely to avoid recession, according to a survey run by Consensus Economics. In an interview with the Financial Times, Philip Lane, Chief Economist at the European Central Bank reinforced this even tone on economic prospects, stating that "our current assessment is that if there is a recession, it's going to be mild and short lived."

Meanwhile, the International Monetary Fund's (IMF) deputy managing director, Gita Gopinath, signalled at the World Economic Forum in Davos that the organisation was about to upgrade its forecasts. China's vice-premier Liu He also sent a bullish message on Chinese growth prospects, claiming "China is back". While the country is currently suffering a disorderly end to its 'Zero Covid' policy, it is likely to see a rebound in the second half of the year.

Yet any optimism remains tempered, and a global rebound may have its drawbacks for UK prospects. The IMF still projects a "tough year" ahead, and the World Bank has only just downgraded its forecasts in its first forecast update since last June. Meanwhile, the International Energy Association predicted that a rebound in Chinese demand would lead to an all-time high demand for global oil, pushing up prices. So, while fears of a deep global recession may now be abating, and key trading partners are set for improving prospects, UK economic policy still faces a tough balancing act responding to competing global pressures.

London's offices lift off less than European peers

The first month of 2023 has also seen some London-specific data points come out, including numbers from Finnish lift-maker Kone. While this might seem a niche figure, the company's lift-tracking data can in fact help give us a view on the office recoveries of cities around Europe. The latest figures look like bad news for the capital's office space. While London seems to have begun 2022 with a stronger recovery in office lift use than most other major European cities, its rebound flattened off this year. And the addition of strike action by rail and other workers in December caused a significant drop back in December – well ahead of seasonal averages. Across the full year, London's office lift activity rose by the least of any of the 10 major cities with Kone data.

These real-time figures build on previous data from the Royal Institution of Chartered Surveyors showing demand for office space falling in London starting in the second half of 2022. The surveys also show availability rising and new investment falling sharply. With recession looming and long-term office working patterns still unclear, headwinds are growing against major investments in commercial real estate.

While the coming months are likely to prove a dry spell for investment, overall business sentiment in London ticked back into positive territory in December. The London PMI for current business activity rose to 50.2, returning above the neutral 50 mark from 48.2 in November. Yet there were some mixed signals across the components of the PMI, with future activity also rising but new business holding below 50 and employment falling into negative territory for the first time since February 2021.

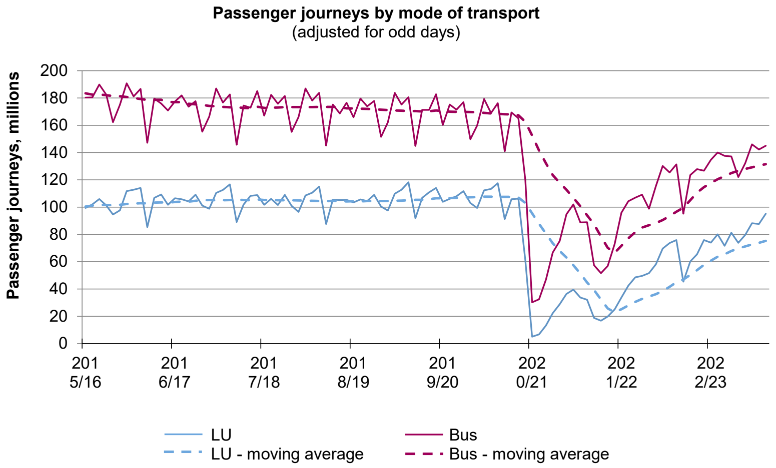
GLA Economics will continue to monitor this situation over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

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

- 240.1 million passenger journeys were registered between 13 November 2022 and 10 December 2022, 10.2 million more than in the previous period, between 16 October 2022 to 12 November 2022, of 229.8 million.
- In the latest period, 95.1 million of all journeys were underground journeys and 145.0 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 204.2 in the previous period to 206.8 in the latest period.

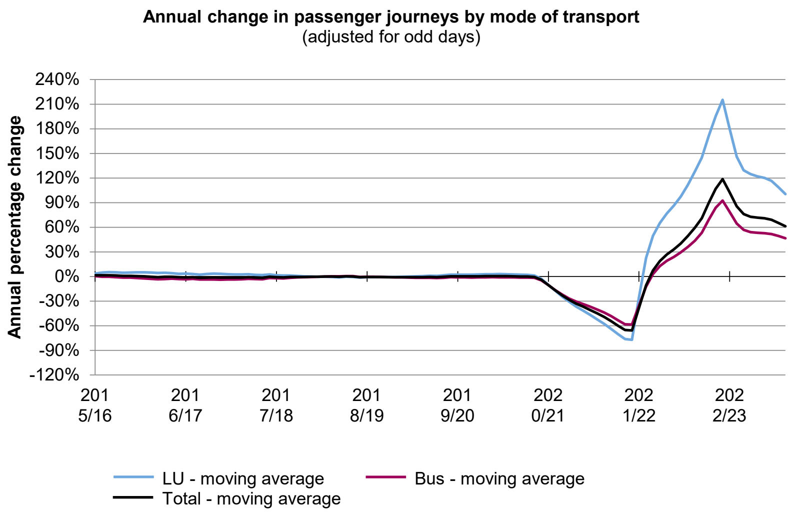
Source: Transport for London
Latest release: January 2023, Next release: February 2023



Annual growth in passenger journeys remained strongly positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 61.2% between 13 November 2022 to 10 December 2022, down from 65.4% between 16 October 2022 to 12 November 2022.
- The moving average annual growth rate of bus journeys decreased from 49.5% to 46.6% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 108.8 to 100.3% between those periods.

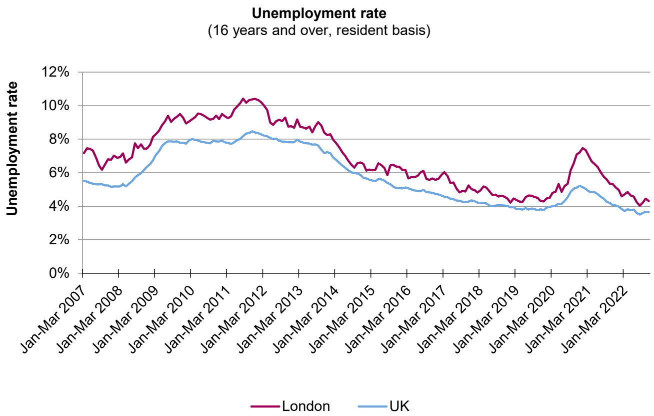
Source: Transport for London
Latest release: January 2023, Next release: February 2023



London's unemployment rate remained low in the quarter to November 2022

- Around 215,000 residents 16 years and over were unemployed in London in September – November 2022.
- The unemployment rate in London was 4.3% in that period, more than in the previous quarter, June – August 2022, at 4.0%.
- The UK's unemployment rate increased slightly, from 3.5% in June - August 2022 to 3.7% in September – November 2022.

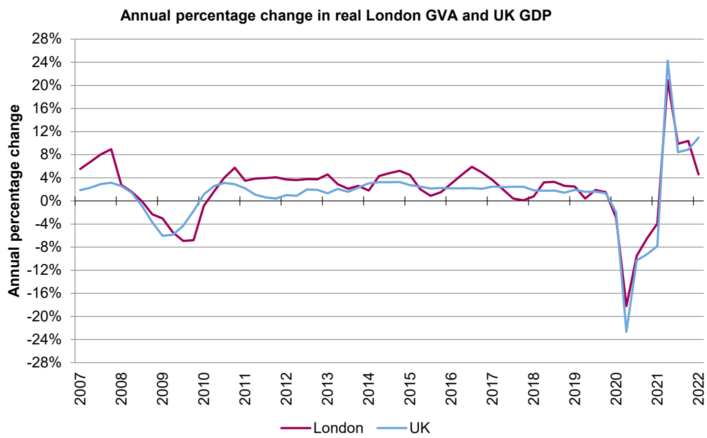
Source: ONS Labour Force Survey
Latest release: January 2023, Next release: February 2023



London's economy had surpassed pre-pandemic levels of output by Q1 2022

- By Q1 2022 London's GVA was 0.9% above its pre-pandemic level (Q4 2019), and UK GDP was 0.5% below.
- London's real GVA increased by 1.1% in Q1 2022 - compared with Q4 2021 - after increasing by 3.8% in the previous quarter.
- The UK's real GDP quarterly growth rate for Q1 2022 was 0.7% after increasing by 1.6% in the previous quarter.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so is more robust.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012 have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

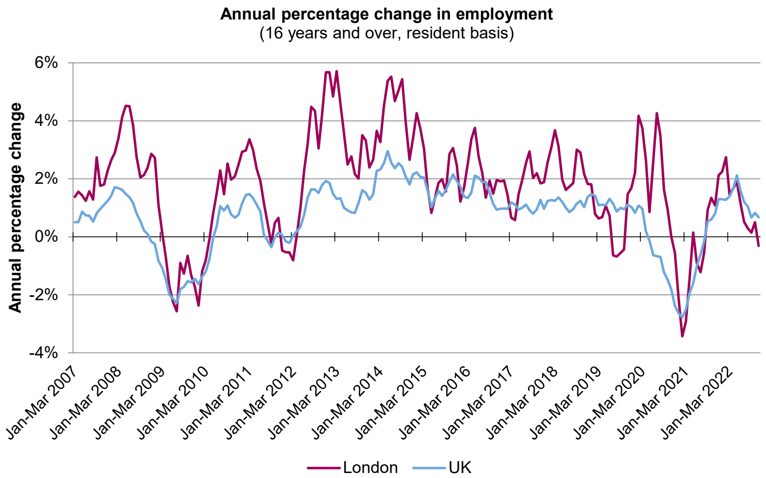
Source: ONS and GLA Economics calculations
Latest release: November 2022, Next release: February 2023



London's employment growth turned negative in the quarter to November 2022

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of September – November 2022.
- The rate of employment growth in the capital declined to -0.3% in the year to this quarter, lower than in the previous quarter to August 2022 of 0.3%. This is the first negative growth since Summer 2021.
- The change in the UK's employment annual growth rate was 0.7% in the most recent quarter, slower than the rate of 1.0% in the previous quarter.

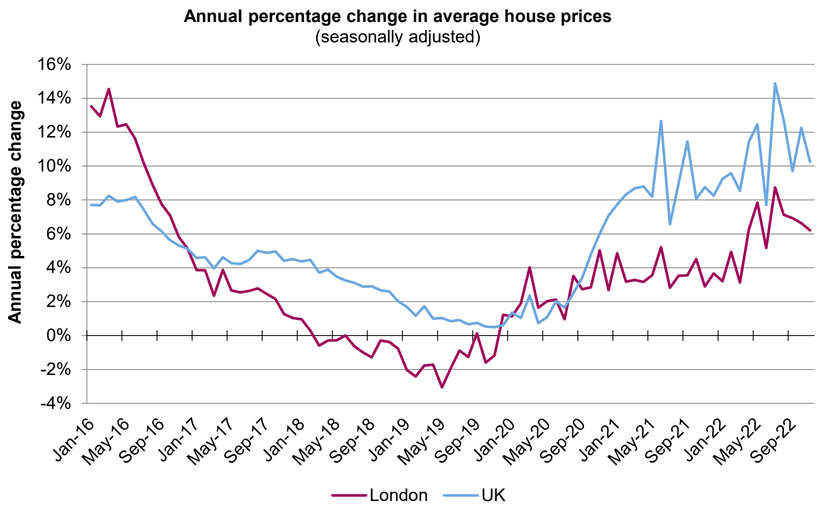
Source: ONS Labour Force Survey
Latest release: January 2023, Next release: February 2023



House price growth in London remained positive, but continued to decrease in November

- In November 2022, the average house price in London was £540,000 while for the UK it was £292,000.
- Average house prices in London rose by 6.2% year-on-year in November, less than the rate of 6.6% in October.
- Average house prices in the UK rose by 10.3% in November on an annual basis, lower than the rate of 12.3% in October.

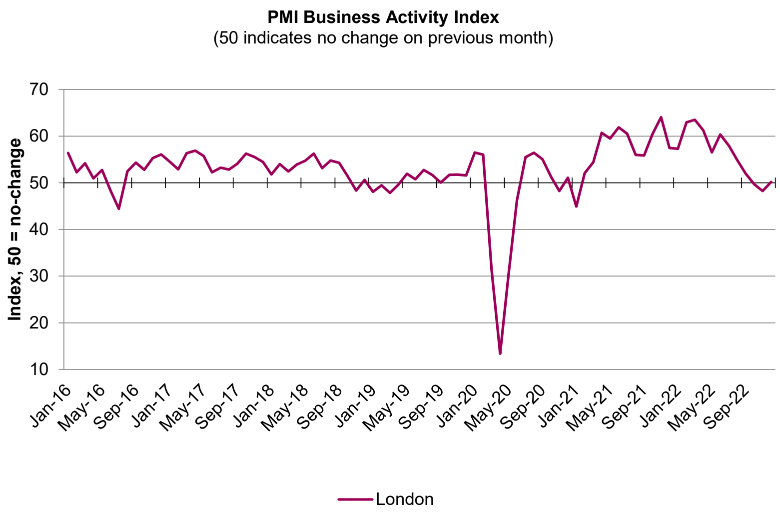
Source: Land Registry and ONS
Latest release: January 2023, Next release: February 2023



In November, the sentiment of London's PMI business activity index increased and became just positive

- The business activity PMI index for London private firms increased from 48.2 in November to 50.2 in December.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

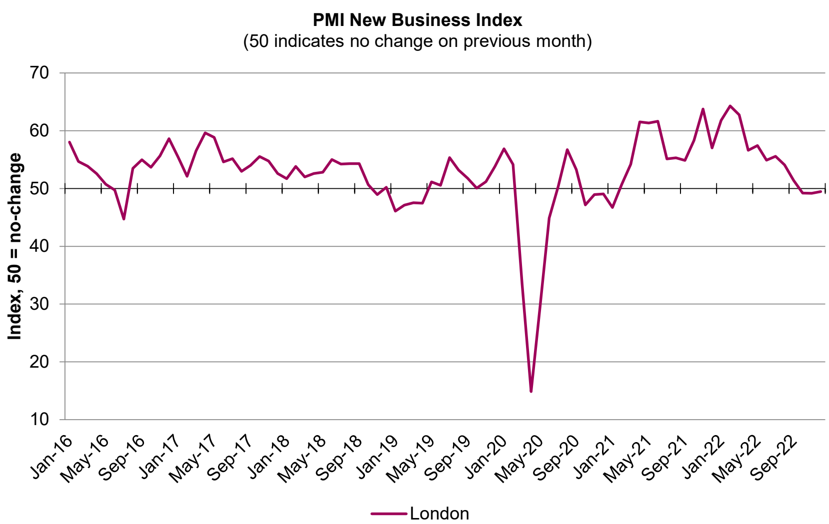
Source: IHS Markit for NatWest
Latest release: January 2023, Next release: February 2023



In December the sentiment of London's PMI new business activity index increased slightly but remained marginally negative

- The PMI new business index in London increased from 49.2 in November to 49.5 in December.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

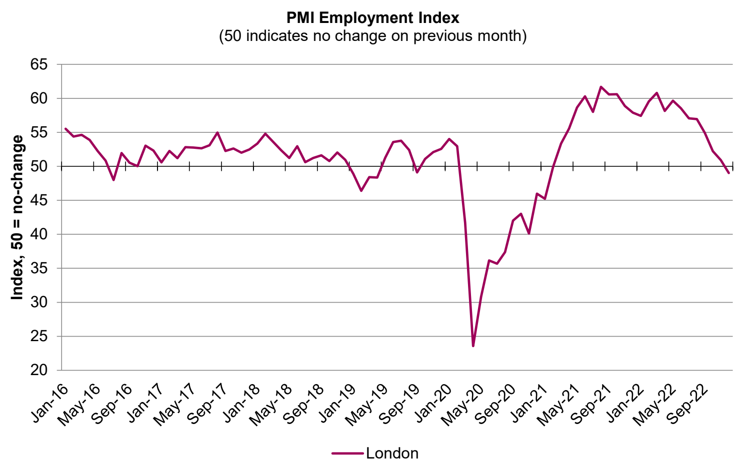
Source: IHS Markit for NatWest
Latest release: January 2023, Next release: February 2023



In December, the sentiment of the PMI employment index in London decreased slightly and became marginally negative

- The Employment Index for London decreased slightly from 50.9 in November to 49.0 in December.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

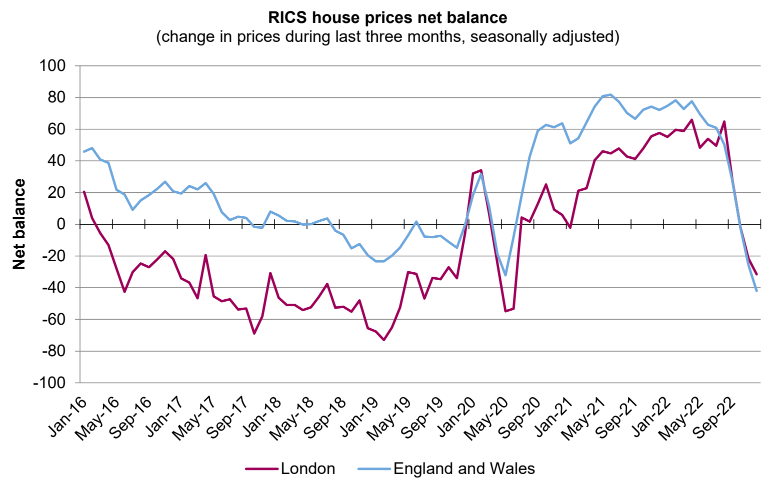
Source: IHS Markit for NatWest
Latest release: January 2023, Next release: February 2023



The number of property surveyors in London expecting house price falls in December increased markedly

- In December, property surveyors in London saw an increase in the net balance of those reporting falling prices. The net balance index was -32, and in November it was -22.
- For England and Wales, the RICS house prices net balance index decreased from -26 in November to -42 in December.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

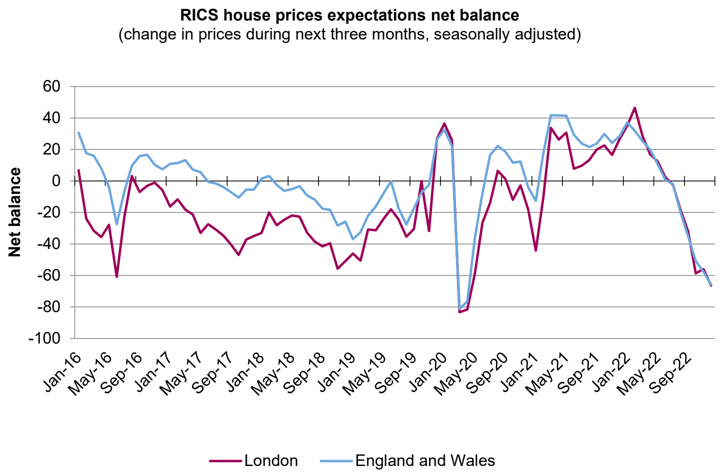
Source: Royal Institution of Chartered Surveyors
Latest release: January 2023, Next release: February 2023



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

- The net balance of house prices expectations in London was -66 in December, lower than the balance of -56 in November.
- The index for England and Wales was -66 in December, lower than the value of -58 in November.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

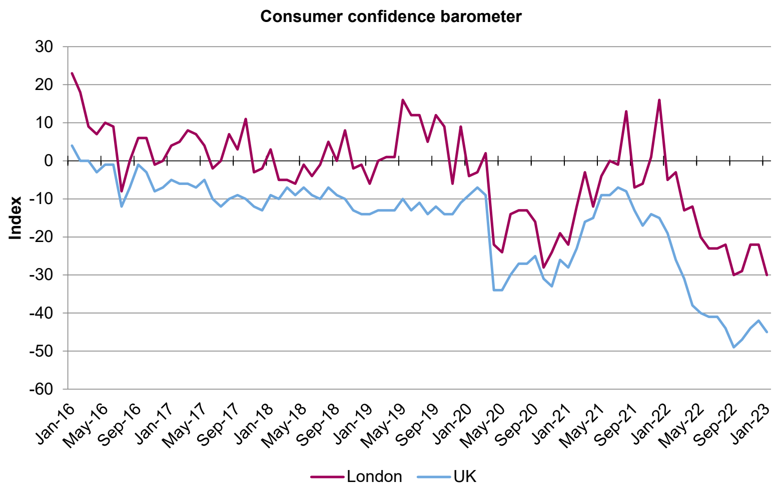
Source: Royal Institution of Chartered Surveyors
Latest release: January 2023, Next release: February 2023



Consumer confidence in London decreased and remained negative in January

- The consumer confidence index in London decreased from -22 in December to -30 in January.
- The sentiment for the UK decreased from -42 in December to -45 in January. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: January 2023, Next release: February 2023



Quality of jobs for London workers

By **Ammar Ljubijankic Kutasi**, Economist

The Office for National Statistics (ONS) recently published an analysis of Job quality in the UK with a range of indicators showing different aspects of job quality at UK and subnational level.[1]

London stood out in the data in a number of dimensions. Suggesting a good quality of jobs, workers living in London reported the highest likelihood of progressing in their career across all UK regions and they were least likely to receive low pay relative to the national measure.[2] However, relative to local pay, Londoners were instead the most likely to be low paid. Other indicators of low job quality, such as being unpaid for overtime and working unsatisfactory numbers of hours, were also more common in London. Overall, this suggested that the relative quality of jobs of people living in London may be low.

The ONS analysis is based on employee responses (so excludes those who are self-employed) and assesses job quality through seven indicators.[3] The data is available at national, regional, and local authority level and covers several professional and personal characteristics, such as occupation, industry, and ethnicity. However, the survey sample sizes limit the precision of estimates, especially for smaller groupings and geographies. In this note, we focus on selected key findings for workers living in London.

Londoners are not low paid relative to UK average, but wage inequality exists locally

The average wage in London is much higher than in the UK overall: the median weekly earnings of a full-time employee in London was £767 in 2021, compared to the UK-wide median of £611, a difference of 26%.[4] As a result, the share of Londoners with low pay on the national measure was smaller than in any other region of the UK, at 8%, as shown in Figure 1A.

1 ONS analysis on Annual Population Survey data for the year 2021. Location based on respondent residence.
2 Low pay is defined as receiving less than two-thirds of UK median hourly pay.
3 The included indicators are: satisfactory hours; overtime work; desired contract; low-pay; career progression; employee involvement; and zero-hour contracts.
4 Based on ASHE 2021 data, ONS.

Figure 1A: Proportion of employees earning less than two-thirds of UK or local median pay

Source: GLA Economics analysis of ONS Annual Population Survey 2021

However, using the median pay in the worker's local authority as a benchmark, London was instead the region with the largest share of low paid workers at 16%. This is due to big differences between the highest and lowest earnings in London, which are larger than in the rest of the UK. As London also has the highest house prices and rental rates, workers with low relative wages are even more exposed to cost-of-living pressures.[5] Illustrating the wage inequality, the ratio between household incomes at the 90th and 10th percentiles (a measure of income inequality) was 10.6 in London in 2019, but only 5.2 in the rest of the UK.[6]

Several job quality outcomes are occupation-specific

Across UK regions, London had the largest share of workers who reported that their jobs afforded them good opportunities for advancing in their career (60% in London, 55% UK-wide).[7] A key factor in career opportunities is occupational group.

The most positive responses on career opportunities in London were found in Professional, Managerial and Associate Professional occupations, in which more than 60% of workers believed they had opportunities to progress (Figure 2A). These are typically occupations requiring higher levels of training and which pay higher wages. Workers in Elementary occupations were instead the least likely to report good progression opportunities at around 32%, just over half the London average.

These figures may reflect the level of qualifications required within the occupations, as workers with degrees in London were almost twice as likely to report good career opportunities (66%) as those without any formal qualifications (35%).

Elementary occupations were most likely to involve zero-hours contracts (13%) alongside Caring, Leisure & Other (nearly 10%). These are contracts that do not guarantee a minimum number of hours. Unpaid overtime, while most common amongst the professional and managerial occupations, was also relatively common in administrative and secretarial roles.

5 ONS, house prices and rents
6 GLA Economic Fairness, income inequality measure.
7 Workers responding positively to the statement "My job offers good opportunities for career progression".

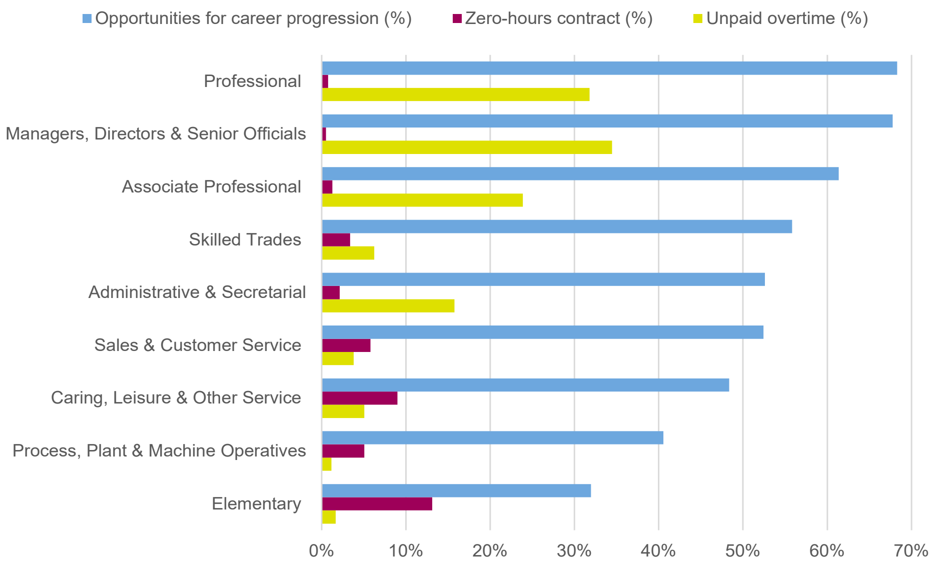


Figure 2A: Proportion of employees by selected job quality indicator and occupation group in London

Source: GLA Economics analysis of ONS Annual Population Survey 2021

Differences in job quality indicators between demographic groups are uncertain

There is some variation in low job quality indicators by the demographic characteristics of workers, though the differences are not always statistically significant.[8] For instance, there were no significant differences in the prevalence of zero-hour contracts between men and women in London. Among other indicators, women were more likely to report satisfaction with job hours than men (82% vs. 75%), but they were also more likely to have low pay relative to local wages (19% vs. 14%) and less likely to say they have good opportunities for career progression (56% vs. 64%).

There are also few significant differences when comparing job quality indicators between workers in different ethnicity groups, largely due to low sample sizes resulting in large uncertainties. Londoners from the White ethnicity group were less likely to have zero-hours contracts (2%) than those from Black (7%) or Bangladeshi (10%) ethnicity groups but there is insufficient data to draw conclusions when comparing to other ethnicity groups.

Londoners who are UK nationals were significantly less likely to have low pay relative to local wages compared to those who are neither UK nor EU nationals (15% vs. 20%), and they were also more likely to work overtime unpaid (23% vs. 16%). These differences may reflect the different occupational mix between the two groups, as non-UK nationals were more likely to work in industries with lower pay, such as Hospitality.[9]

Do Londoners generally experience low job quality?

Though there are more indicators for which London workers were worse off than better off, when compared to other regions or the UK overall, it is likely that these outcomes are a result of the occupational mix in London.

When considering unpaid overtime among workers in Professional occupations across regions, for instance, most report rates as high as those in London. Since the capital has a higher share of its workforce in such occupations, this outcome is more prominent in the overall London average.[10]

For more analyses on London's labour market, see GLA Economics' Datastore.

8 The ONS provide lower and upper bounds for their estimates for particular groups, based on 95% confidence intervals. Although we do not have the raw data to calculate statistical significance for the differences between groups, as a rule of thumb, when these bounds overlap, we say the differences are not statistically significant.

9 GLA Economics, PAYE Employments by nationality.

10 34% of workers resident London were in Professional occupations, ahead of the South East on 27%. APS Jan-Dec 2021.

Our latest publications

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

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

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

View all the GLA Economics publications on our website.

The State of London – January 2023 update
The second edition of the State of London report by GLA City Intelligence brings together a wide range of outcome data relevant to the work of the Mayor, the London Assembly and other stakeholders and measures how London is performing based on data from autumn 2022.

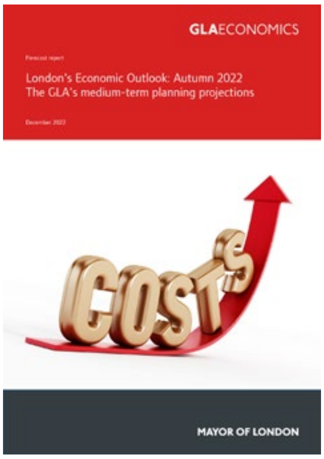
While London has continued to recover from the pandemic since the first edition of this report in June 2022, by October 2022 the impact of inflation on the city became increasingly evident as it affected both households and businesses.

Download the full publication.

Cost of living – August 2022 update
The cost of living crisis in London threatens to widen existing inequalities, halt the economic recovery from the pandemic and leave many unable to afford necessities.

This report (and accompanying online blog) builds on previous work at the start of this year to set out an evidence base on the impact of the cost of living crisis on Londoners.

Download the full publication.



London's Economic Outlook: Autumn 2022
GLA Economics' 41st London forecast suggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 6.9% due to the rebound from the COVID-19 crisis. Growth is expected to fall by 0.8% in 2023 due to the cost of living crisis before improving to growth of 1.5% in 2024.

Download the full publication.

GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

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

January 2023

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

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

Images

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

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

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

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

MAYOR OF LONDON