GLAECONOMICS

London's Economy Today

Issue 264 | August 2024

UK cuts interest rates for first time since 2020

By **Ali Ögcem**, Economist, **Gordon Douglass**, Supervisory Economist and **Sixia Zhang**, Economist

The Bank of England cut interest rates for the first time since 2020 this month. The Bank Base Rate was lowered from 5.25% to 5% on 1 August after the Bank's Monetary Policy Committee (MPC) voted by five members to four to reduce the rate by a quarter of a percentage point. This puts an end, for the time being, to the period of rising interest rates which started in 2021.

In deciding to vote for a cut in rates the MPC minutes note that the impact of previous shocks had abated, that inflation expectations had normalised and that there "had been some progress in moderating risks of persistence in inflation". Although the members voting against noted that some economic news "suggested that second-round effects were having a greater impact on wage and price-setting behaviour in the economy".

On the same day as the MPC made its interest rate decision the Bank also published its latest Monetary Policy Report which set out its thinking on the state of the UK economy ahead of that decision. In this it observed that although inflation had dropped to target it expects it to pick up later in the year "to around 2¾%". However, this rise should be temporary with inflation expected to drop back next year. Looking at the prospects for UK GDP the Bank remains relatively downbeat with only modest growth forecast for the next few years. So, although the forecast for GDP growth in 2024 has been upgraded from 0.5% in their May forecast to 1.25% now, its forecast for 2025 and 2026 remains unchanged at 1% and 1.25% respectively.

Also in this issue

Datastore

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

UK Inflation rises slightly in July

Despite the Bank cutting interest rates this month UK inflation numbers have picked up a notch, but as noted above this increase was generally in line with the Bank's expectations. Consumer Price Index (CPI) inflation hit 2.2% in the 12 months to July 2024, up from 2.0% in June (Figure 1). This rate remains within the Bank's central symmetrical target for CPI inflation of 2% ±1% and was below what most commentators had been expecting. Looking at the drivers of inflation the ONS noted that the largest upward contribution to the monthly change "came from housing and household services where prices of gas and electricity fell by less than they did last year; the largest downward contribution came from restaurants and hotels, where prices of hotels fell this year having risen last year". Still beyond the headline rate other measures of inflation are continuing to slow. Core CPI (excluding volatile energy, food, alcohol and tobacco prices) inflation was 3.3% over the year to July 2024, down from 3.5% in June. The CPI goods annual rate remained negative but rose from negative 1.4% to negative 0.6%. The CPI services annual rate, fell from 5.7% in June to 5.2% in July; this was a greater drop in that measure of inflation than expected by most analysts.

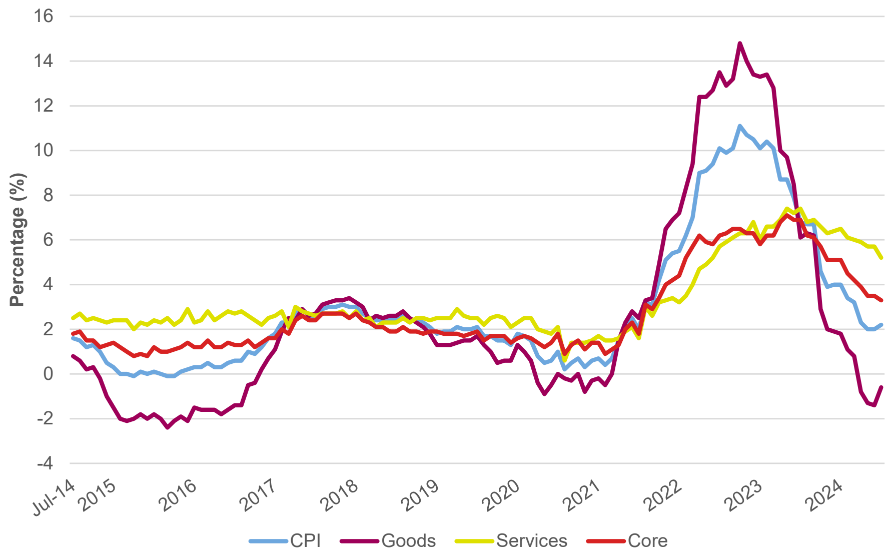


Figure 1: CPI, goods, services and core annual inflation rates, UK, July 2014 to July 2024

Source: ONS

Despite inflation moderating from its recent highs, household finances continue to face challenging times. This was highlighted this month by the announcement of Ofgem that the household energy price cap will rise by 10% in October. This means that an average annual household energy bill would rise from £1,568 to £1,717. Analysts also expect a further rise in the cap in January.

UK GDP grew respectably in Q2 2024

The ONS has recently published data looking at the speed at which the economy grew in the second quarter of 2024. This data showed that UK GDP increased by 0.6% in the three months to June 2024, following growth of 0.7% in the three months to March 2024 (Figure 2). This follows on from two quarters of falling output at the end of 2023 which saw the UK enter a technical recession. Looking at a longer time frame UK GDP is 0.9% higher than it was in Q2 2023.

However, despite GDP seeing growth in the second quarter of the year of the major sectors of the economy only the services sector saw output increase. Thus, the ONS observes that "in output terms, services grew by 0.8% on the quarter with widespread growth across the sector; this offset falls of 0.1% in both the production and construction sectors". In terms of real GDP per head the ONS estimates it "to have increased by 0.3% in Quarter 2 2024 and is 0.1% lower compared with the same quarter a year ago".

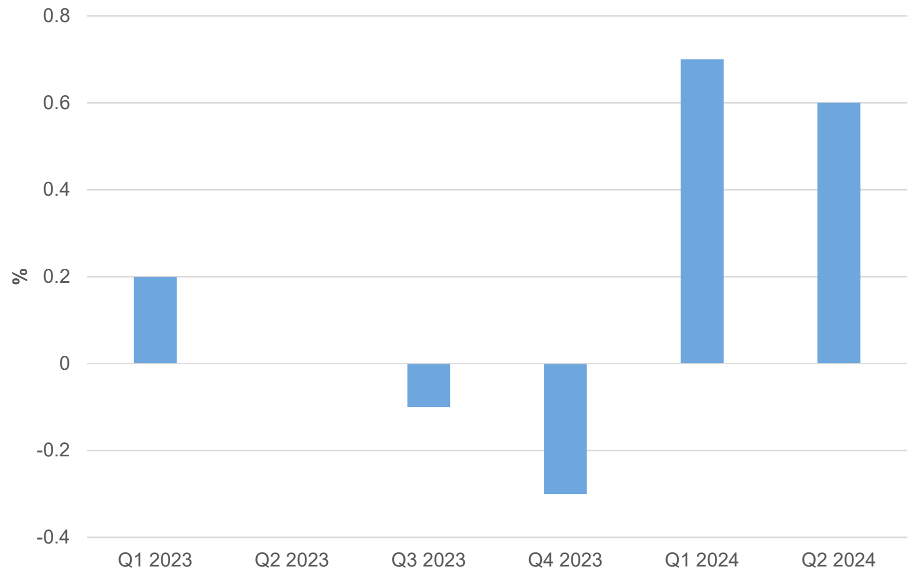


Figure 2: UK quarterly GDP growth, Quarter 1 (Jan to Mar) 2023 to Quarter 2 (Apr to June) 2024

Source: ONS

The Chancellor announces the existence of a large Government overspend

At the end of July the new Chancellor of the Exchequer, Rachel Reeves, unveiled the findings of an audit of public finances that she had commissioned post the general election. The audit "identified a substantial forecast overspend of £21.9 billion above the resource departmental expenditure limit (RDEL) totals set by the Treasury at the Spring 2024 Budget". The sources of this overspend included "unfunded policy announcements", the impact of inflation being higher than expected at the time of the 2021 Spending Review which set departmental budgets, events such as the war in Ukraine and public sector pay awards. The cost of the public sector pay awards, which have been accepted by the new government, amount to around £9.4 billion for the fiscal year 2024-25. While, there existed a £6.4 billion short fall in the asylum system and a £1.6 billion short fall in rail finances.

In response to this overspend the Chancellor announced a number of proposed savings and spending cuts. This includes asking government departments to find £3.2 billion in savings including stopping "all non-essential government consultancy spend in 2024-25 and halving government spending on consultancy in future years". Further savings include not proceeding with adult social care charging reforms which were due to commence in October 2025, cancelling the Investment Opportunity Fund, cancelling the Advanced British Standard and reviewing previous commitments to some transport schemes and new hospitals.

A further major spending cut in the statement was the decision to target the Winter Fuel Allowance only to households in England and Wales with someone aged over the State Pension age receiving Pension Credit, Universal Credit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. City Intelligence Unit analysis of London data suggests that in 2022-23 970,000 pensioners received a Winter Fuel payment in London. While, in the quarter ending February 2024 there were 190,000 active Pension Credit claims in the capital.

UK economy has seen slow income growth, rising poverty, and growing inequality according to the Institute for Fiscal Studies

The UK economy is facing significant challenges, as highlighted by a recent report from the Institute for Fiscal Studies (IFS). The report covers the period from 2019-20 to 2022-23, indicating that the past few years have been characterized by very slow income growth, increasing poverty among low-income groups, and rising inequality. These challenges have been largely accelerated by the COVID-19 pandemic and the subsequent cost-of-living crisis, making this one of the slowest periods of income growth in recent UK history.

The IFS analysis shows that during this period, poorer households initially experienced income rises due to government interventions during the pandemic. However, when these temporary measures were withdrawn, these households faced a more severe fall in income. Specifically, income for the poorest third of households remained flat between 2019-20 and 2022-23, while the middle-income group saw a real-term decline of 2%. Among higher-income households, there were small declines, contributing to the stagnation of income growth since 2007-08. The inequality gap has not narrowed significantly and living standards of poorer households have only modestly improved.

Poverty rates exhibited mixed trends during the period from 2019-20 to 2022-23. Absolute poverty increased marginally to 18%, remaining close to the levels seen before the pandemic, while relative poverty fell slightly to 21%. However, the report highlights an exceptionally high increase in material deprivation. For example, the proportion of working-age adults unable to afford adequate heating rose dramatically from 4% to 11%. This sharp rise in material deprivation reflects the significant economic pressures on lower-income groups, pressures that are not fully captured by traditional poverty indicators.

The report goes on to describe other limitations related to measuring price rises, such as the impact of floating mortgage interest rates. Thus, ignoring interest rate rises lead to an underestimation of the cost pressures for holders of mortgages. This mismeasurement issue is a growing concern as interest rates have increased markedly since December 2021, with an increased likelihood of financial stress for households with mortgages.

The report does however show that average incomes have increased in real terms among pensioners from 2011-12 to 2019-20, but that this has not translated to material poverty reduction among poorer pensioners. This is because intra-pensioner inequality is increasing, and hence, pensioners without private pensions or savings experienced slower growth in incomes.

The global economy is at a crossroads

In the United States, there has been a rise in economic uncertainty. Following a year of robust growth some signs of an economic slowdown have appeared underpinned by rising unemployment and slowing job growth. Recent data from the US Bureau of Labor Statistics indicated that job growth was weaker than initially estimated, with revisions showing that 818,000 fewer jobs were added between April 2023 and March 2024 than previously reported. Additionally, the unemployment rate has shown signs of edging higher, further compounding concerns about the health of the labour market. Minutes from the July Federal Reserve meeting indicate that future interest rate cuts may occur, driven by labour market weakening and the cooling of inflation. This would show that officials at the Fed are more concerned that waiting too long will give the slowdown room to worsen.

Elsewhere although inflationary pressures have started to come off the boil, uncertainty remains about the future pathway of inflation. For example, the European Central Bank (ECB) also hinted that it may cut interest rates as early as September, despite persistent core high inflation but that this will depend on the evolution of the economy's performance. In stark contrast, Brazil and India are two economies still battling persistent inflation, with Brazil's inflation rate hovering around 4% and India's at approximately 6.4%. This persistence makes the decision for their central banks on balancing growth versus price stability more cumbersome, as Brazil's Selic rate remains at 13.75% and India's repo rate at 6.50% despite global trends towards easing.

Fanning global economic concerns are the major labour disputes unfolding across North America and in India, heightening the prospect of supply chain disruptions worldwide. Those would ripple out widely, with particular concerns for the US as the holiday season drives up the cost of goods delivery and delays. The International Longshore and Warehouse Union's (ILWU) strike involves over 22,000 workers, potentially impacting ports like Los Angeles and Long Beach, which handle about 40% of US imports. US Treasury

Secretary Janet Yellen recently warned that "any significant disruption could have ripple effects across the US economy, particularly during peak consumer demand periods". Similarly, World Bank President Ajay Banga emphasized that "supply chain disruptions in major economies have global implications, potentially slowing recovery efforts in developing nations and increasing inflationary pressures worldwide".

The indicators for London's economy remain positive

Despite the challenges that the UK and international economies continue to experience the economic picture in the capital shows signs of strength. This can be seen from the various indicators summarised in the economic indicators section of this publication. Thus, the Purchasing Managers Index (PMI) for new business and employment has shown an expansion for all of 2024 so far, while new business activity has been expanding since 2022. Consumer confidence has also been marginally positive for the past few months. However, other indicators do add a note of caution. For example, the ONS estimates that unemployment in London has recently picked up although it still remains relativity low by historic standards.

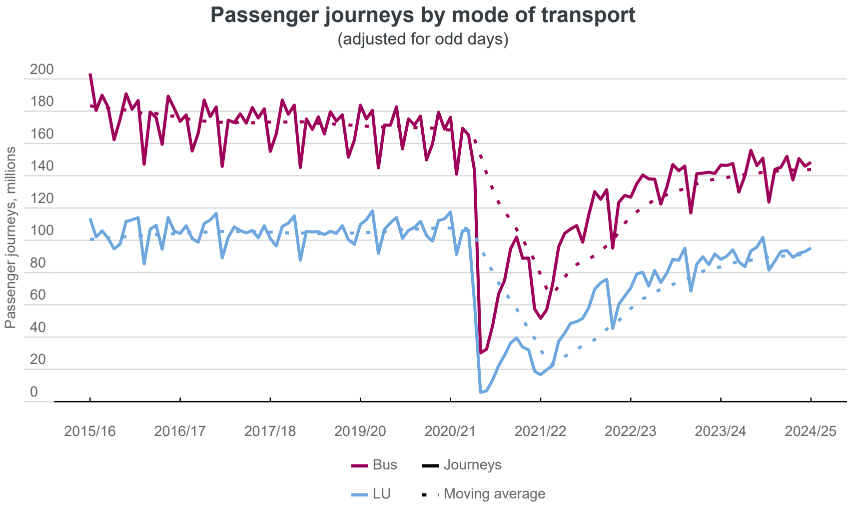
GLA Economics will continue to monitor all these issues over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport marginally increases in July

- 243.5 million passenger journeys were registered between 23 June and 20 July, 4.7 million more than in the previous period. 238.9 million passenger journeys were registered between 26 May and 22 June.
- In the latest period, 95.2 million of all journeys were underground journeys and 148.3 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose marginally from 234.9 million in the previous period to 235.1 million in the latest period.

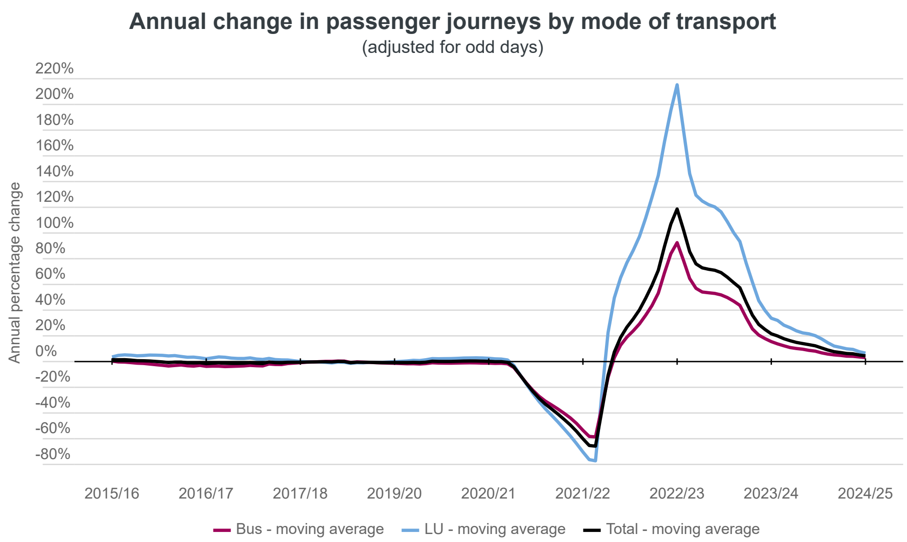
Source: Transport for London
Latest release: August 2024, Next release: September 2024



Annual growth in passenger journeys remains positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 4.4% between 23 June and 20 July, down from 5.1% between 26 May and 22 June.
- The moving average annual growth rate of bus journeys decreased from 3.6% to 3.1% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 7.7% to 6.6% between those periods.

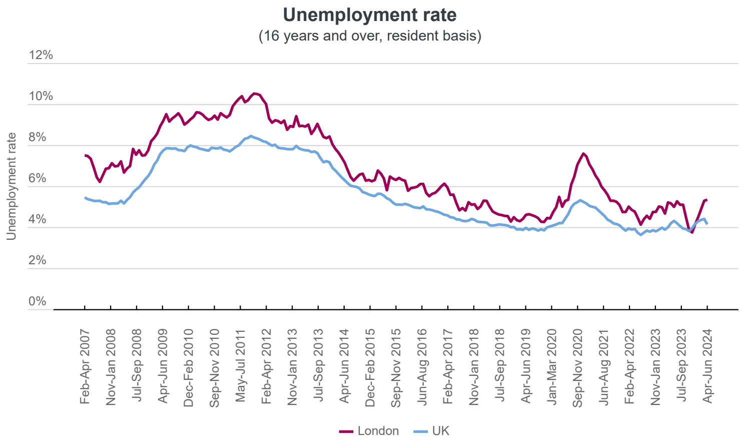
Source: Transport for London
Latest release: August 2024, Next release: September 2024



London's unemployment rate increased over the last quarter

- Around 265,000 residents aged 16 and over were unemployed in London in the period from April to June.
- The unemployment rate in London for that period was 5.4%, an increase from 4.5% in the previous quarter January - March.
- The UK's unemployment decreased slightly to 4.2% in April - June, down from 4.3% in January - March.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

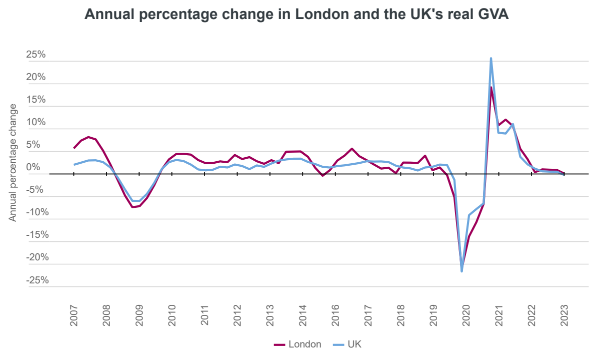
Source: ONS Labour Force Survey
Latest release: August 2024, Next release: September 2024



London's economy had surpassed pre-pandemic levels of output by Q4 2022, with recent growth trends moderated

- By Q4 2023, London's real Gross Value Added (GVA) was 0.6% above its pre-pandemic level (Q4 2019), while the UK's real GVA was 1.4% higher.
- London's real GVA decreased by 0.3% in Q4 2023 compared to Q3 2023, following no change in the previous quarter. Similarly, the UK's real GVA also decreased by 0.3% in Q4 2023 compared to Q3 2023, after a 0.1% decline in the previous quarter.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012, and from Q1 2020 onwards have been produced by GLA Economics. Estimates for the intervening period are based on outturn data from the ONS, which has not published up-to-date quarterly estimates for London's real GVA for the other periods.
- The Office for National Statistics (ONS) recently published figures on London's output for 2022 and revised annual figures for earlier years. GLA Economics has re-estimated ONS quarterly London data on a comparable basis according to the recent ONS revisions to London annual figures and produced its own estimates for growth for the period Q4 2022 to Q4 2023. The net effect of the ONS downward revision is a reduction in estimates of London's output compared to what GLA Economics was previously reporting.

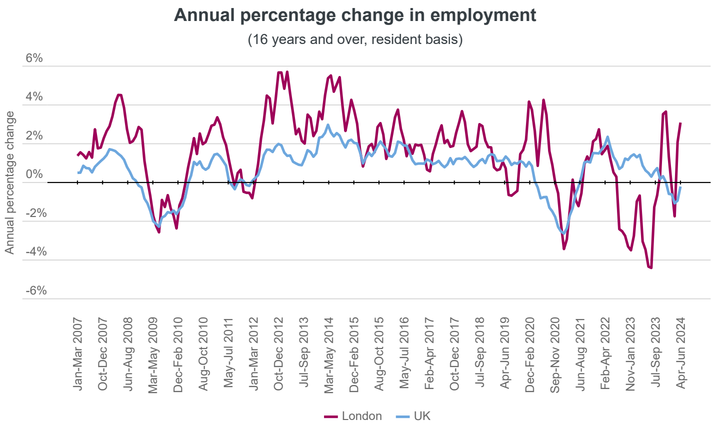
Source: ONS and GLA Economics calculations
Latest release: July 2024, Next release: December 2024



London's year-on-year employment growth rate rose in the quarter to June

- Around 4.8 million London residents aged 16 and over were in employment during the three-month period from April to June.
- London's annual change in employment increased by 3.1% in the year to this quarter, compared to a 0.3% drop during the period from January to March.
- The UK experienced a 0.2% decrease in employment in the latest quarter, this compares to a 0.6% decrease in the previous quarter.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

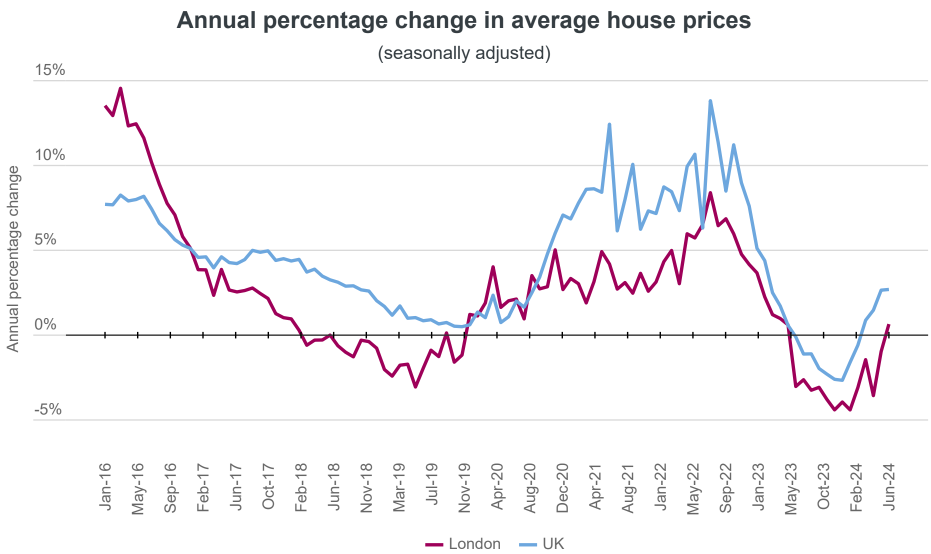
Source: ONS Labour Force Survey
Latest release: August 2024, Next release: September 2024



On an annual basis house prices rose in London in June

- In June, the average house price in London was £519,000, while across the UK, it was £286,000.
- Average house prices in London rose by 0.7% year-on-year in June, compared to a decrease of 1.0% in May.
- Average house prices in the UK rose by 2.7% on an annual basis in June, the same as the increase in the year to May.

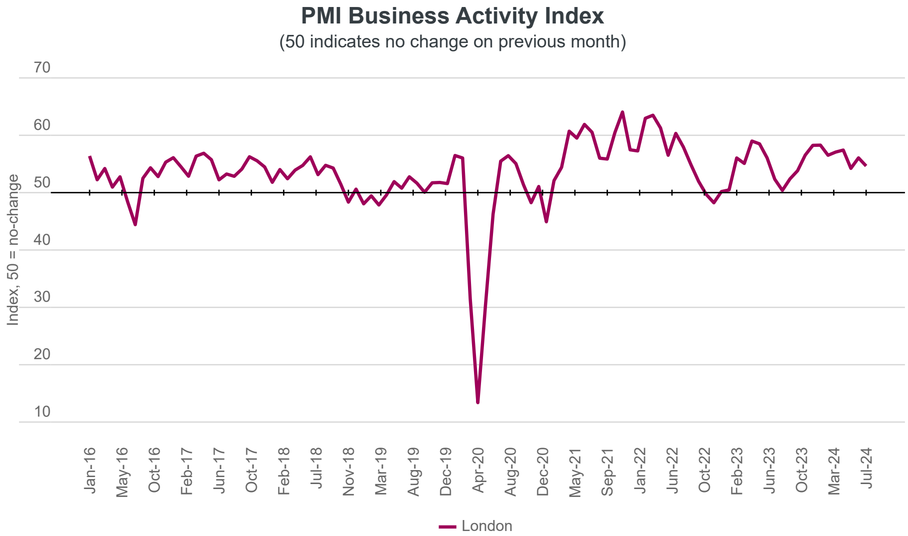
Source: Land Registry and ONS
Latest release: August 2024, Next release: September 2024



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

- The business activity PMI index for London private firms decreased slightly from 56.1 in June to 54.6 in July.
- 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.

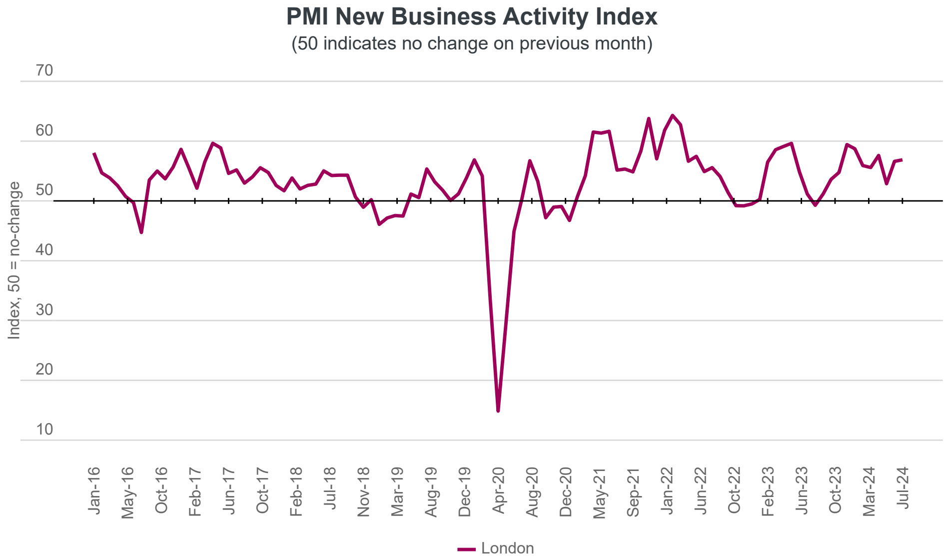
Source: IHS Markit for NatWest
Latest release: August 2024, Next release: September 2024



In July, the sentiment of London's PMI new business activity increased marginally

- The PMI new business index in London increased slightly from 56.6 in June to 56.9 in July.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

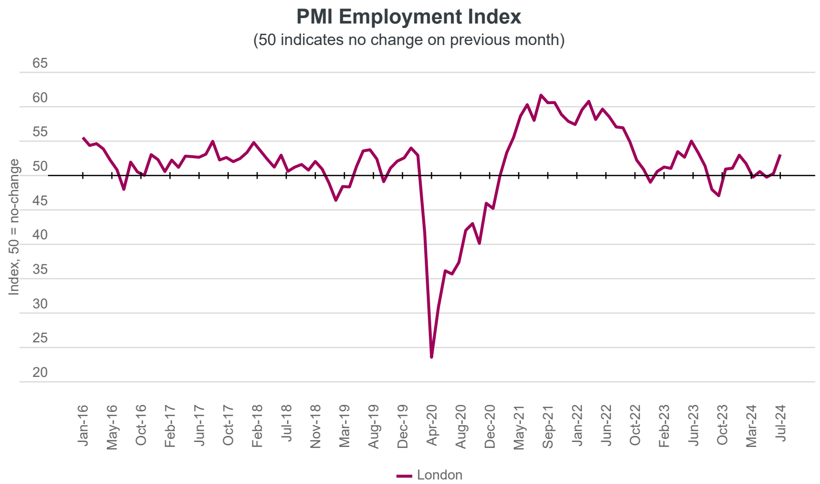
Source: IHS Markit for NatWest
Latest release: August 2024, Next release: September 2024



In July, the sentiment of the PMI employment index in London increased

- The Employment Index for London increased from 50.3 in June to 53.1 in July.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. A reading above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

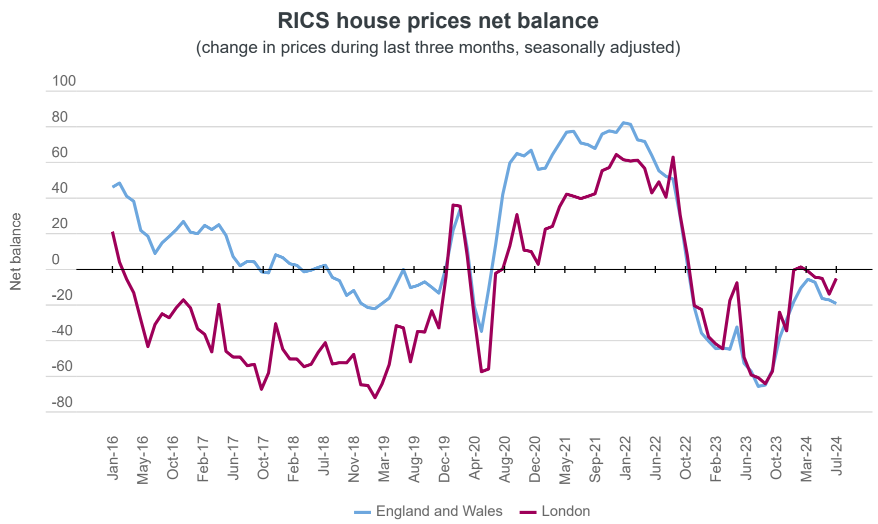
Source: IHS Markit for NatWest
Latest release: August 2024, Next release: September 2024



Less than half of property surveyors in London reported house price increases in July

- In July, fewer property surveyors in London reported rising prices compared to those reporting falling prices. The net balance index was -5, an improvement from -14 in June.
- For England and Wales, the RICS house prices net balance index fell from -17 in June to -19 in July.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

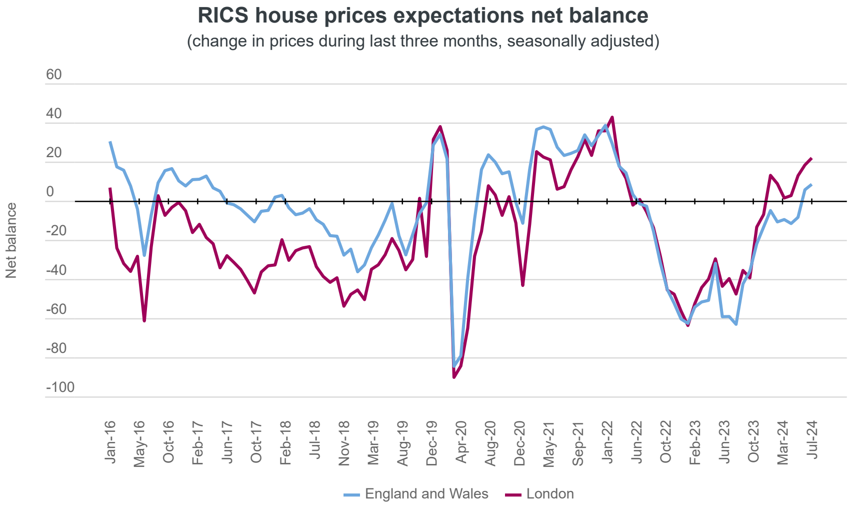
Source: Royal Institution of Chartered Surveyors
Latest release: August 2024, Next release: September 2024



In July, over half of property surveyors expressed positive expectations for house prices in London over the next three months

- The net balance of house prices expectations in London was 22 in July, up from 19 in June.
- The index for England and Wales was 9 in July, and was 6 in June.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

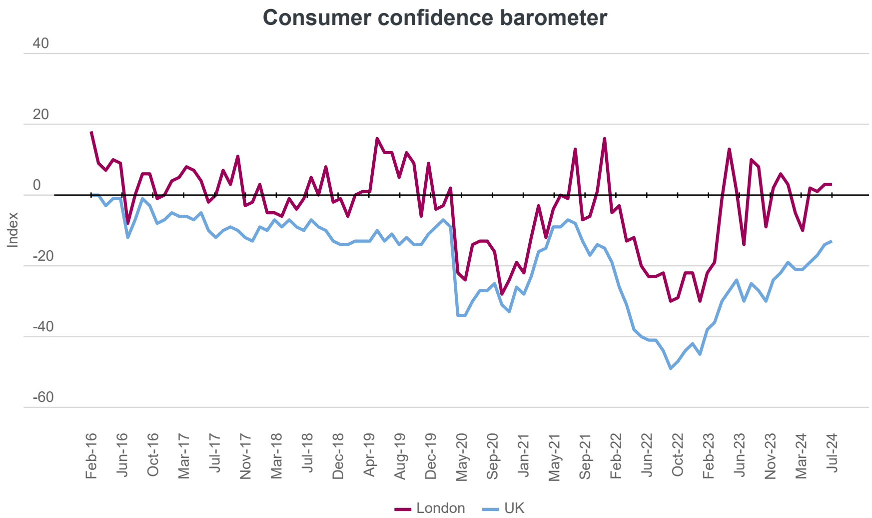
Source: Royal Institution of Chartered Surveyors
Latest release: August 2024, Next release: September 2024



Consumer confidence in London was stable in July

- The consumer confidence index in London was 3 in July, the same as in June. It has been volatile month-on-month around zero since spring 2023.
- The sentiment for the UK improved slightly from -14 to -13 over these two months. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: July 2024, Next release: September 2024



UK investment between 2000 & 2019: distinction with a difference

By **Adam Yousef**, Senior Manager

While it is true that the UK has been lagging many OECD (Organization for Economic Cooperation and Development) and most G7 countries in gross capital formation, the picture becomes more mixed and complex as one scrutinises national, international and regional data trends. This supplement will examine these issues from a UK context in more detail.

The role of investment as an integral component of GDP and long-term economic growth is hardly in question. Many economists have pointed to the UK's poor economic productivity since the 2008 Financial Crisis as a principal reason behind the country's failure to sufficiently boost its people's living standards since. This is hardly controvertible, as is the fact that the UK's most productive regions (e.g., London) have experienced lower productivity growth since 2010 than most other (less) productive regions of the country, which does not bode well for national productivity growth in the near future.

UK Gross Fixed Capital Formation

Amongst the many explanations provided for the feeble levels of productivity growth, one concerns chronic underinvestment in the UK. Figure A1 shows that annual growth rates of real gross fixed capital formation (GFCF) in 2019 were barely as high as they were in the early 2000s just before the 2008 global financial crisis, with annual growth decreasing since 2014 and that decrease generally picking up momentum since 2018.

It took nearly two decades for GFCF levels to grow by just under 40%.

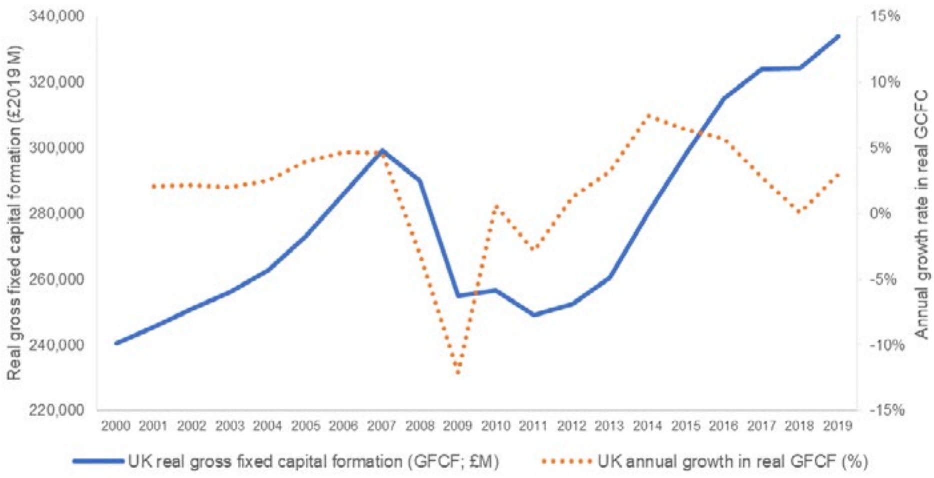


Figure A1: UK real GFCF and annual growth rate

Source: Office for National Statistics (ONS)

UK Business Investment

It is important to note that GFCF does not capture total investment. For example, it only accounts for the net amount added to an asset. Moreover, it includes fixed assets and hence excludes items such as financial assets, stock inventories, and land transactions. Therefore, while GFCF reliably captures a significant component of total investment in an economy, it should not be treated as synonymous to total investment.

Therefore, Office for National Statistics (ONS) data on business investment provides another useful indicator of UK investment performance. Figure A2 shows real business investment and annual growth over the same period (2000-2019). As with GFCF, annual growth rates in business investment in 2019 were similar to those in the early 2000s, with rates again dropping since 2015 and that drop picking-up pace in 2016.

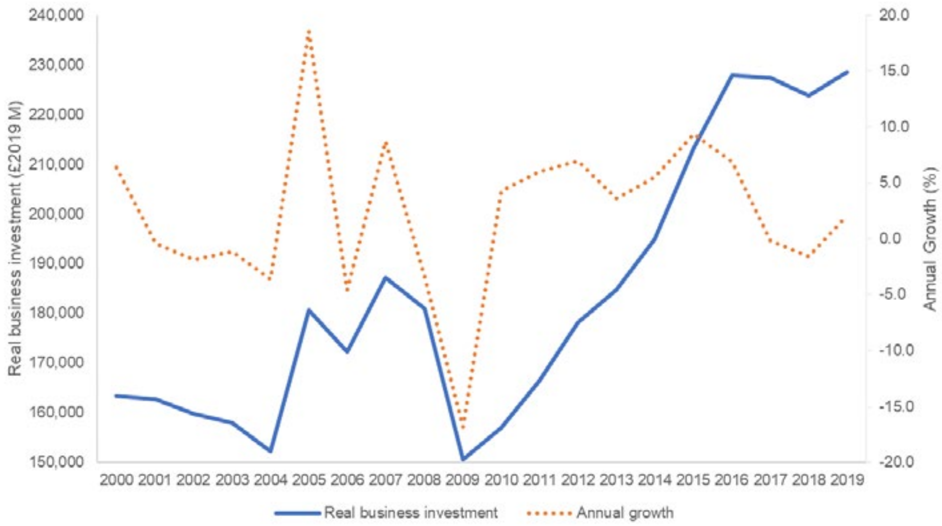


Figure A2: Real business investment and annual growth

Source: ONS

UK Gross Capital Formation

Going beyond GFCF to consider gross capital formation (GCF) as a whole does not change the trends much (Figure A3). Annual growth in 2019 was relatively feeble, and in fact slightly lagged that of the early 2000s. Here again, we notice annual growth getting relatively feeble around the 2015-2016 mark. It is also interesting to note that the UK's GCF as a percentage of GDP in 2019 (18%) was exactly what it was in 2000 (18%). Over the entire two-decade period it ranged from 16% to 18%.

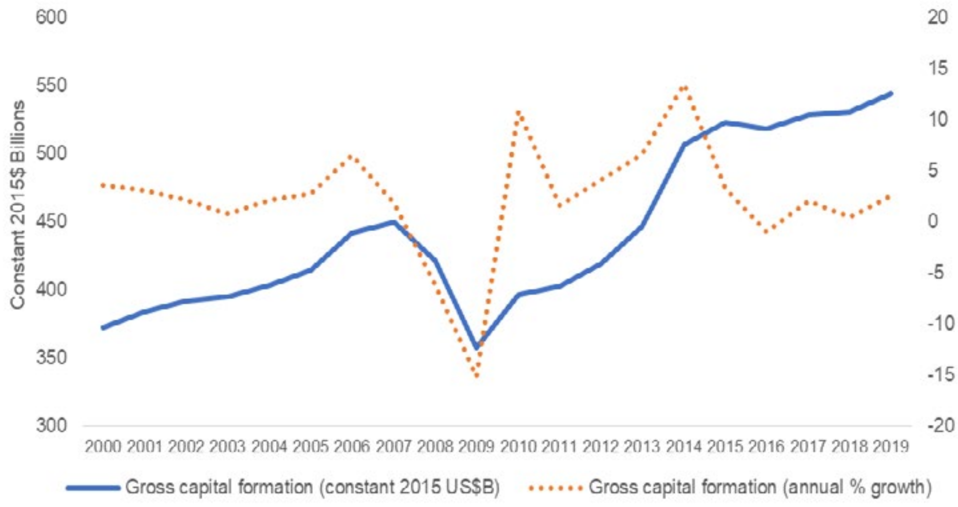


Figure A3: Real gross capital formation and annual growth

Source: World Bank

UK Investment vs. Comparable Countries

The picture becomes illuminating when looking at how the UK performs compared to other G7 and OECD countries[1].

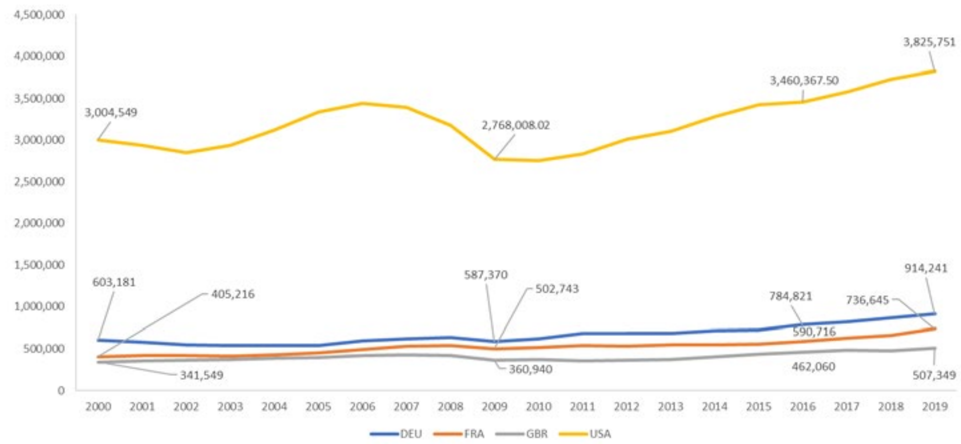


Figure A4: Real Gross Fixed Capital Formation by country - Real (2010) US dollar millions

Source: OECD and World Bank

Table A1: Percent change in real GFCF between 2000 and 2019 by country

Country	Percent change in real GFCF (2000-2019)
UK	48.5%
Germany	51.6%
France	81.8%
United States	27.3%

Source: OECD and World Bank

Figure A4 reveals that:

- The UK underperformed France, Germany, and the US on levels of real gross fixed capital formation throughout the bulk of this century.
- The gap between the UK and the other countries has grown even more over the past two decades, especially since 2008. By 2019, the UK's total GFCF represented just under 70% (compared to over 84% in 2000) of France's and 55% of Germany's (compared to 57% in 2000).

1 Henceforth, DEU in the charts refers to Germany due to OECD country nomenclature.

The UK's underperformance is clear when accounting for real GFCF per capita (Figure A5). By 2019, the UK's real per-capita GFCF represented less than 70% of both France's and Germany's. It is worth noting also that the gap with France and Germany has widened over the course of the two decades. Figure A6 reveals a similar trend when looking at real gross capital formation per capita.

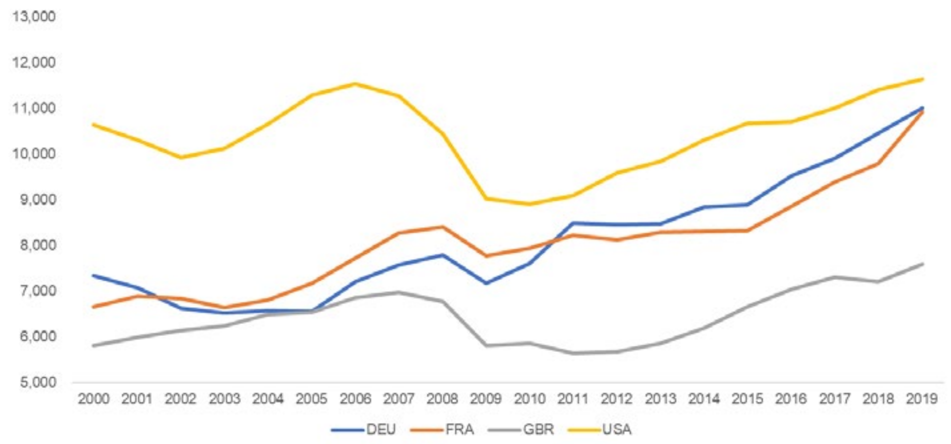


Figure A5: Real GFCF per capita by country

Source: OECD and World Bank

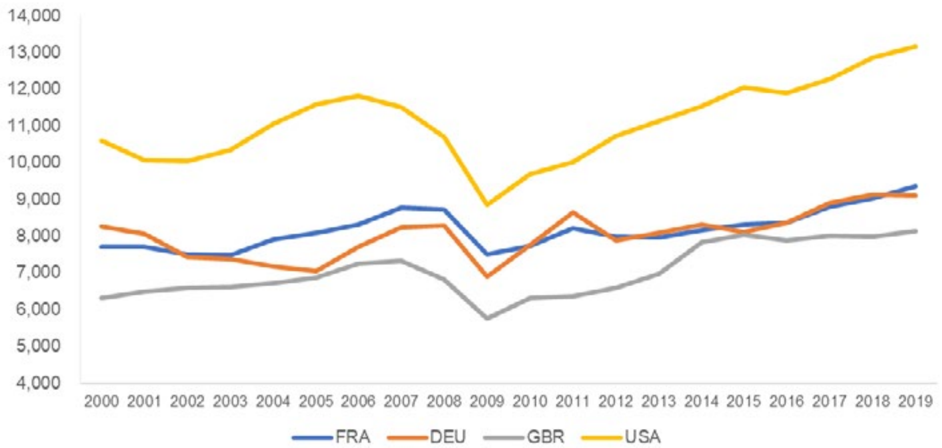


Figure A6: Real gross capital formation per capita by country

Source: World Bank

The picture becomes more interesting when looking at real GCF growth across different periods over the past two decades (Table A2). As can be seen, UK real GCF outgrew that of the US, France and Germany across the first two decades of this century, and in fact GFC growth in the UK outpaced both Germany's and France's from the Great Recession to 2019. The weakness in UK investment growth commences around 2016; growth over the three subsequent years lagged all three countries and by quite a margin.

Table A2: Real GCF of the US, France, Germany and UK, 2000-19

	2000-19	2008-19	2016-19
USA	44.4%	32.8%	12.4%
GERMANY	11.4%	11.2%	10.0%
FRANCE	34.1%	12.2%	12.8%
UK	46.1%	29.2%	5.0%

The picture is more or less replicated when looking at growth in real GCF per-capita (Table A3).

Table A3: Real per capita GCF of the US, France, Germany and UK, 2000-19

	2000-19	2008-19	2016-19
USA	24.1%	23.0%	10.6%
GERMANY	10.2%	9.9%	9.0%
FRANCE	21.2%	7.2%	11.7%
UK	28.7%	19.4%	3.1%

In sum, between 2000 and 2019, the UK experienced bigger growth in real GCF per-capita than the other three countries despite experiencing lower productivity growth. However, from 2016 to 2019, the UK's real GCF per-capita growth was considerably lower than all three countries.

Several reasons could explain the weakening growth of the UK's GCF since 2016. Part of the reason could be the outcome of the Brexit referendum and the ensuing political uncertainty resulting from it. Recent reports and analyses link that decision to poor aggregate investment (both domestic and foreign) as a result of the political and economic uncertainty that ensued following the referendum (see GLA Economics (2024), Cambridge Econometrics (2024) and NIESR (2023) for examples).

However, the Brexit referendum result by itself cannot fully explain what can perhaps be termed 'structural challenges' related to the nature of investment in the UK. Figures A7-A9 break down GFCF in the UK, France, Germany and the United States by 'investment source'.

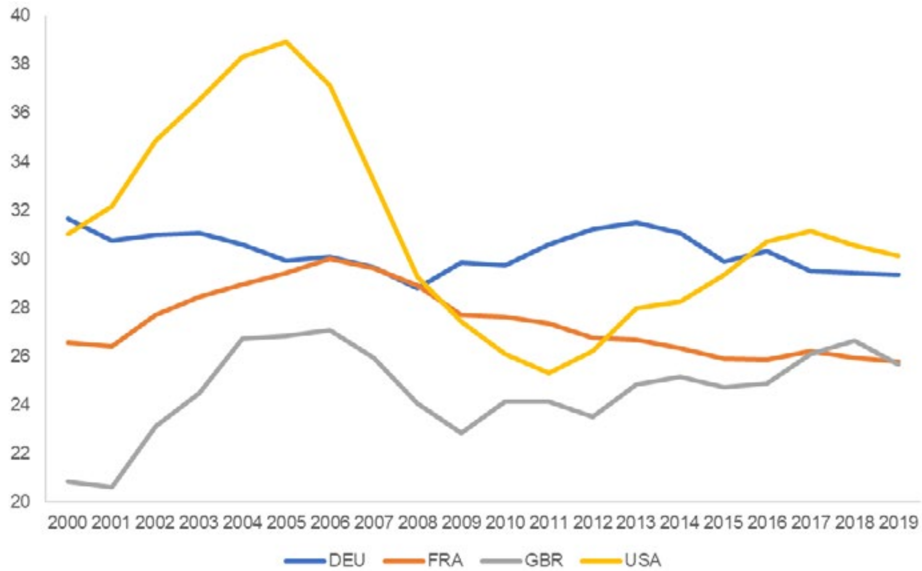


Figure A7: Household investment as a % of GFCF by country

Source: OECD

Figure A7 shows the value of acquisitions of new or existing fixed assets by households as a percentage of total GFCF. Back in 2000, UK households contributed just over a fifth of the country's GFCF, compared to about a third for Germany and the US. While this gap has narrowed down as UK households started investing more in new or existing fixed assets, the country still lags other countries (notably Germany and the US) on that front.

Figure A8 looks at government investment (which includes investment in R&D, military equipment, transport infrastructure and civil infrastructure such as hospitals and schools) as a percentage of GFCF. Interestingly, the UK nearly doubled the share of government expenditure in GFCF during the 2000s, before dropping by over 5 percentage points during the 2010s. By the time of the 2008 Financial Crisis, the UK's share of government investment in GFCF was only exceeded by the US. By 2019, it lagged both the US and France.

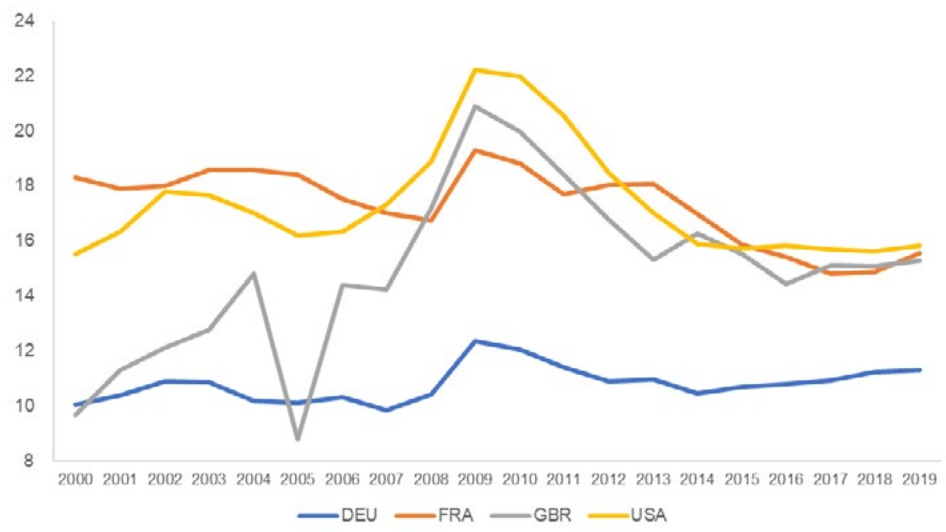


Figure A8: Government investment as a % of GFCF by country

Source: OECD

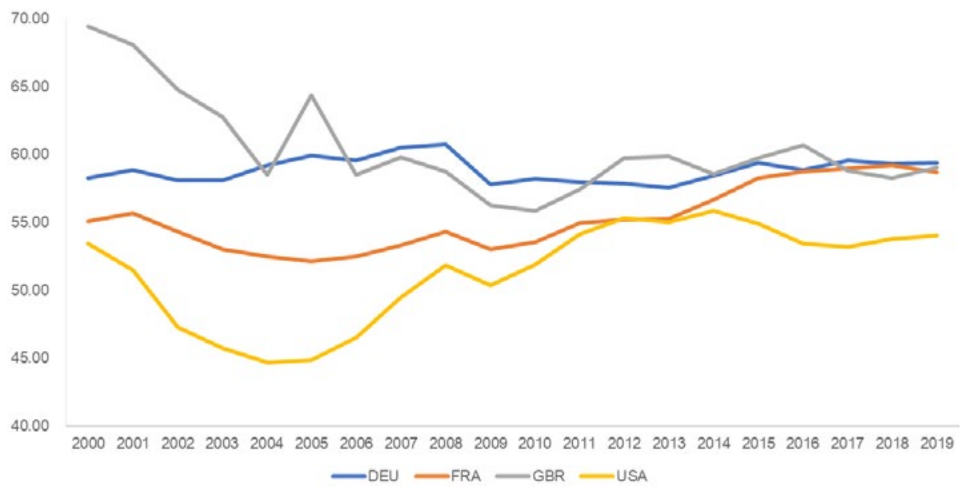


Figure A9: Corporate investment as a % of GFCF

Source: OECD

Figure A9 looks at corporate investment's share of GFCF by country, where corporate investments tend to represent the largest share of GFCF. In 2000, 70% of the UK's GFCF came from corporate sources; by the financial crisis, it drops to under 60% and fluctuated around the 60% mark ever since. In 2019, only Germany had a larger share of corporate investment.

What Figures A7-A9 collectively show is that traditionally, the UK has been more reliant on corporate and government investment for its total GFCF stock than most countries in the above sample as well as the OECD average; in 2019, 75% of the stock came from these two sources, compared to 70% in the US, 71% in Germany, and 74% in France. Stated differently, the sources of GFCF investment in the UK are slightly less diversified than they are in other OECD countries, which could suggest a greater sensitivity of its investment flows to fiscal/budgetary realities and geopolitical situations. That is also not so surprising when we consider the fact that the UK is a relatively open economy that is much more integrated globally than most other OECD countries (including Germany and France).

Forecasts of future gross fixed capital formation: UK vs OECD countries

OECD forecasts of gross fixed capital formation by quarter paint a worrying picture for the UK (Figure A10).

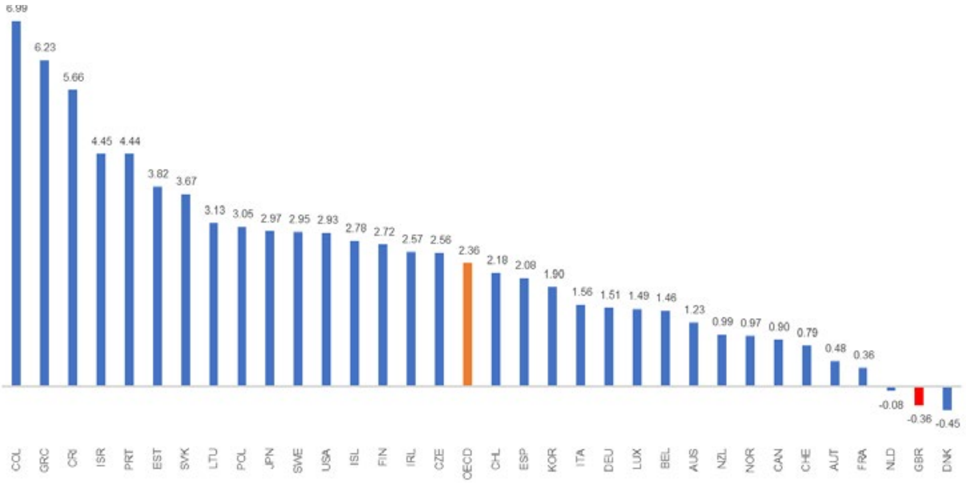


Figure A10: Average quarterly GFCF growth forecast by OECD country (Q1 2024 – Q4 2025)

Source: OECD

The UK's average quarterly growth in GFCF from Q1 2024 to Q4 2025 is expected to be -0.36%, which is nearly 3 percentage points worse than the OECD average and is bettered by all other countries except Denmark.

Similarly ominous forecasts for UK investment were made by the Office for Budget Responsibility (OBR) in its March 2024 Economic and Fiscal Outlook (see Table A4):

Table A4: Annual forecast of percentage change in investment parameter (%)

	2024	2025	2026	2027	2028
Fixed business investment	-5.1	1.4	2.5	2.0	1.2
Fixed general government investment	-1.5	-2.4	-2.0	-2.0	-3.0

Source: OBR

Curiously, the OBR forecasts that government investment, whose share in total UK GFCF has already dropped substantially over the past decade, will continue to decrease, while growth in fixed business investment will remain relatively modest. On that basis, a rise in GFCF would require a noticeable rise in share of household fixed investment as a percentage of GFCF, which on present trends seems unlikely in the short-to-medium term.

Summary and concluding thoughts

In this supplement looking at investment in the UK and London, we focussed on the broad and general trends underlying investment in the UK and how it compares to similar countries as well as the wider pool of OECD and G7 countries. In sum:

- In line with what many pundits and economists have been saying, measures of investment (whether gross fixed capital formation, business investment, or gross capital formation) reveal that annual growth has been weaker in recent years than in the 2000s, with that weakness exacerbating since 2016.
- Across the first two decades of this century, the UK underperformed France, Germany, and the US on measures of real gross capital and real gross fixed capital formation (both on aggregate and per-capita).

- That said, the UK actually did not always underperform these countries. In fact, until the mid-2010s, the UK was generally outperforming these countries and most of the G7 and OECD on both aggregate and per-capita measures of investment. The underperformance begins from 2016 onwards.
- While the Brexit referendum added to the uncertainty that undermined investment, there are other factors behind this malaise- one of which is the UK's overreliance on certain sources of investment that are themselves sensitive to political and economic uncertainty (e.g., corporate investment) than many OECD countries. There are other reasons of course, and those will be covered in upcoming articles.

The last section revealed rather worrying forecasts for investment in the UK on current trends. This makes it all the more necessary to invest more effort into analysing this issue in greater detail.

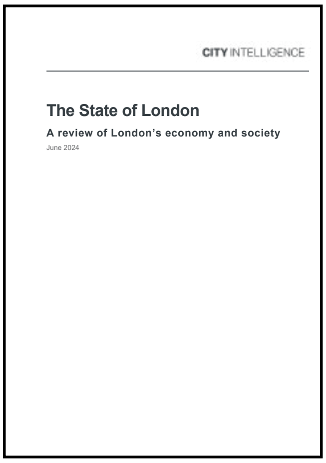
Our latest publications

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.

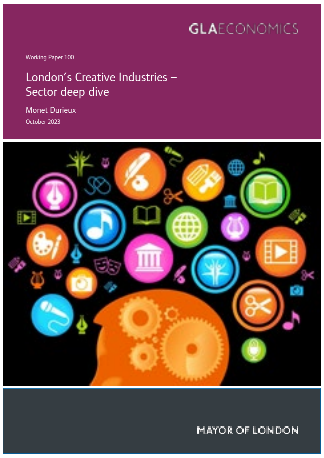
We analyse recent developments in London's labour market, by sector and borough.

View all the GLA Economics publications on our website.



The State of London - June 2024 update
The fifth edition of the State of London report by 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 the most recent available data.

Download the full publication.



London's Creative Industries – Sector deep dive
This paper provides updated data and analysis on London's creative industries, drawing on a variety of sources to assess performance trends over the past decade. It also reviews the workforce and business characteristics for this sector in London and addresses both present skills gaps and future requirements.

Download the full publication.

London's Economic Outlook: Summer 2024
London's real Gross Value Added (GVA) growth rate is forecast to be 1.1% in 2024 as relatively high interest rates and the ongoing fallout from the cost of living crisis drags on the economy. Growth is expected to improve to 1.9% in 2025 and 2.2% in 2026.

Download the full publication.

GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

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

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