GLAECONOMICS

London's Economy Today

Issue 265 | September 2024

UK economy doesn't grow for a second month in a row

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

The Office for National Statistics (ONS) published data this month that showed that output in the UK economy did not grow in July compared to a month earlier (Figure 1). This follows on from no growth in June either.

Looking at the main sectors of the economy only Services saw growth in July with its output increasing by 0.1% in the month following a 0.1% decrease in June. Output in the Production sector declined by 0.8% in July following growth of 0.8% in June. And output in Construction fell by 0.4% in July following growth of 0.5% in June.

Looking at a longer time period in the three months to July, the economy did see some growth with GDP increasing by 0.5% compared to the three months to April. With Services growing by 0.6% and Construction increasing by 1.2%, it's the first positive three months growth since September 2023. However, output in the Production sector declined by 0.1% in the three months to July 2024.

Also in this issue

Datastore

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

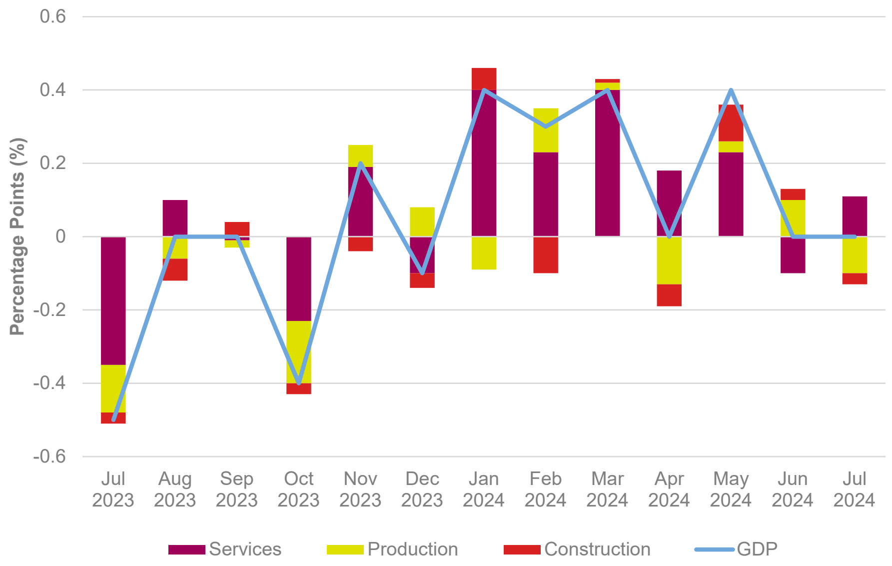


Figure 1: Contributions to monthly GDP growth, July 2023 to July 2024, UK

Source: ONS

UK inflation holds steady at 2.2% in August but core inflation rises amid mixed economic signals

In August 2024, UK inflation held steady with Consumer Price Index (CPI) inflation standing at 2.2% on an annual basis (Figure 2), the same level as in July, according to new data published by the ONS. This aligns with the average of expectations from economists, giving the Bank of England (BoE) some leeway to potentially reducing interest rates later this year. Persistent inflationary pressures in the services sector, where prices rose by 5.6% in August, up from 5.2% in July, contributed to inflation remaining marginally above the BoE's central symmetrical inflation target of CPI inflation of 2% ± 1%. A sharp 22% rise in airfares, particularly to European destinations, was driving this figure according to the ONS which was partially offset by falling fuel prices and decreased costs in restaurants and hotels.

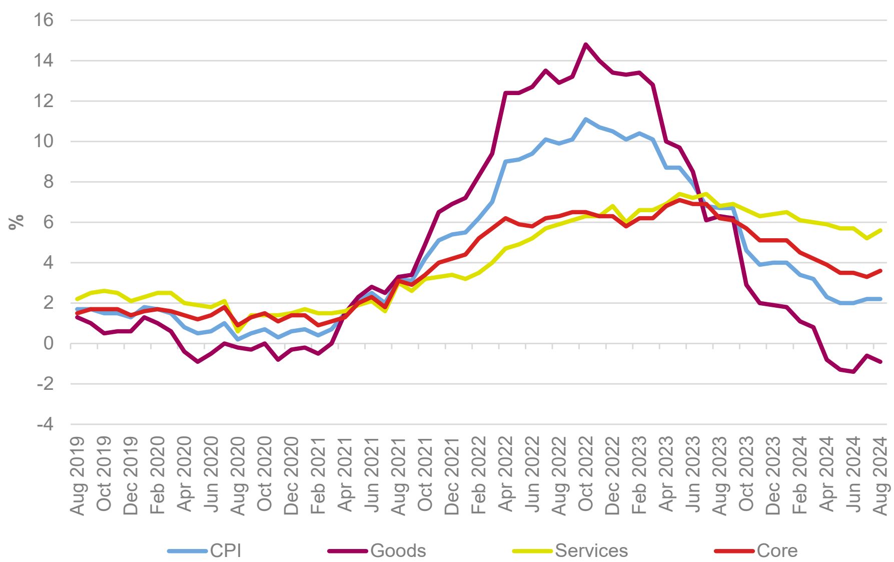


Figure 2: CPI, goods, services and core annual inflation rates, UK, August 2019 to August 2024

Source: ONS

Core inflation, which strips out volatile items such as food and energy, climbed to 3.6% from 3.3% in July. This has added to concerns about underlying domestic price pressures, although wage growth has softened, easing to 5.1% in the three months to July from 5.4% previously.

Despite these inflationary challenges, as noted above the overall UK economy has struggled to gain momentum, with output stagnating in both June and July, raising concerns about the broader economic outlook.

"Cheapflation" drives inflation inequality amid broader UK economic pressures

Although marginally above target, inflation is well down on the recent highs seen in the UK between 2021 and 2023, when cumulative inflation hit 26.6% over that period. A closer look reveals that inflation has not been experienced equally across income groups. According to a new report by the Institute for Fiscal Studies (IFS), "Cheapflation and the Rise of Inflation Inequality", lower-income households bore a much heavier burden during this period. Those in the bottom decile experienced inflation rates 7.7 percentage points higher than wealthier households. This disparity highlights widening inflation inequality, which has been exacerbated by rising prices for cheaper goods — a phenomenon that the IFS refers to as "cheapflation".

One of the key findings of the report is that cheaper product varieties, which lower-income households tend to rely on, saw much steeper price increases than more expensive alternatives. Over the 2021-2023 period, goods at the cheaper end of the spectrum saw an average price increase of 34.2%, compared to just 18.3% for products at the higher end. This trend contributed significantly to the inflation inequality seen across income groups, with poorer households being hit harder by rising prices.

Efforts to mitigate the impact of inflation through substitution- switching to other alternatives- provided only limited relief, especially for lower-income households. The report found that even though some households tried to manage costs by opting for less expensive products, the price of these items had also risen sharply, limiting their ability to offset inflationary pressures. In contrast, wealthier households, with more flexible consumption patterns, were better positioned to navigate the rising prices.

The report's findings suggest that inflation inequality, driven by "cheapflation", could have long-term implications for the UK's economic recovery. As inflation continues to disproportionately affect lower-income households, there is a growing need for targeted policy interventions to address the widening economic divide. Fiscal measures, wage support, and consumer protection policies will be crucial in ensuring that the most vulnerable households are not left behind as the country finds a way through these inflationary challenges.

New research highlights the trade and supply chain disruptions of Brexit

The Brexit Trade and Cooperation Agreement (TCA) continues to significantly hinder UK-EU trade, with both exports and imports declining substantially since 2021 according to research in a new paper, "Unbound: UK Trade post-Brexit", by Aston University. It reveals that UK exports to the EU have fallen by 17%, while imports are down 23% compared to pre-Brexit projections. The decrease in trade is attributed to a 33% reduction in the variety of goods being exported and a 28% decline in the value of imports per variety. These reductions are due to continued difficulties posed by new regulatory barriers, customs checks, and non-tariff measures, particularly impacting sectors such as agricultural products, textiles, and consumer goods. The paper also found that larger EU economies like Germany and France have experienced smaller trade declines with the UK, while smaller EU countries have been hit harder.

The report underscores that the UK-EU supply chain is being reconfigured, with UK firms increasingly looking to local and non-EU sources for intermediate and capital goods. However, the decline in trade varieties, particularly in exports, highlights how deeply Brexit has impacted UK trade competitiveness. Despite some sectoral resilience in areas like automotives and aerospace, the overall trend points toward a long-term structural change in trade dynamics rather than a temporary disruption.

Policy recommendations from the paper include targeting sector-specific adjustments to the TCA, such as reducing non-tariff measures in agriculture and textiles and improving customs procedures through digital technology. The UK government is also urged to pursue closer regulatory alignment with the EU to mitigate further trade deterioration. Despite these efforts, the UK's relative performance in goods trade compared to peer economies has worsened, with ongoing trade barriers continuing to stifle economic growth.

Fed cuts interest rates for the first time in four years, signalling shift toward an easing cycle

Internationally central banks continue to loosen monetary policy. Thus the US Federal Reserve (Fed) cut interest rates by 0.5 percentage points in September's meeting, lowering the federal funds rate to 4.75%-5% (Figure 3). This marks the first cut in over four years, signaling the start of an easing cycle as inflationary pressures reduce in the US and concerns about the labour market rise. The decision reflects the Fed's intention to pre-empt any further economic weakening while maintaining inflation control.

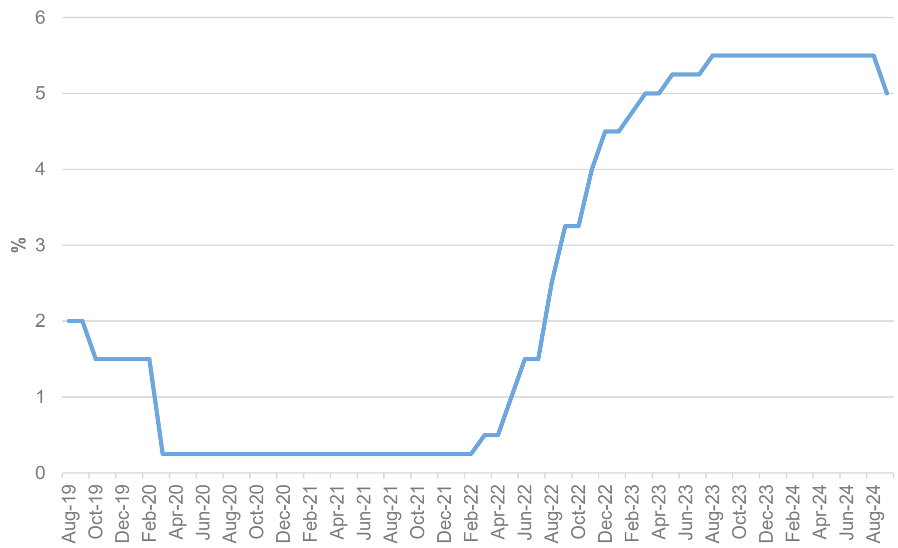


Figure 3: United States Federal Funds interest rate (%)

Source: Board of Governors of the Federal Reserve System (US)

The Fed's Chair, Jerome Powell, highlighted that the economy remains strong but acknowledged that inflationary risks have diminished, while employment risks are increasing with him saying "the labour market is in a strong place - we want to keep it there", adding "that's what we're doing". Future decisions will be based on ongoing economic assessments, with flexibility in either pausing or continuing rate cuts as necessary.

London's return to the office continues but lags some other global cities

The Centre for Cities published its "Return to the office: How London compares to other global cities, and why this matters" report this month, showing that office attendance in central London has increased steadily since the pandemic. On average, full-time workers are now spending 2.7 days per week in the office, up from 2.2 days earlier in the year. This rise marks a gradual return to in-person work, but London still lags behind some other global cities.

In Paris, office workers are spending 3.5 days in the office on average, the highest among the six cities surveyed. New York follows with 3.1 days. London's 2.7 days per week is just ahead of Toronto, which ranks lowest. Further, despite increasing, London has yet to return to pre-pandemic levels, although neither has Paris and New York fully reached their pre-pandemic levels either.

The report highlights that both employers and employees increasingly recognise the benefits of being back in the office. In fact, 95% of workers across all cities said that in-person work improves collaboration and relationship-building. Mandates have also tightened, with the proportion of workers having no in-office mandate falling from 25% to 7% in a year. Despite fears that stricter mandates could lead to employee turnover, only 9% of London workers indicated they would leave their job if asked to attend the office more frequently.

Looking ahead, while hybrid working patterns show no immediate negative impact on productivity, concerns about long-term effects on skills development and career progression have been raised, particularly for younger workers who benefit more from in-office work. The report highlights that to prevent London from falling behind cities like Paris, where higher office attendance could drive greater productivity, both government and businesses must take action.

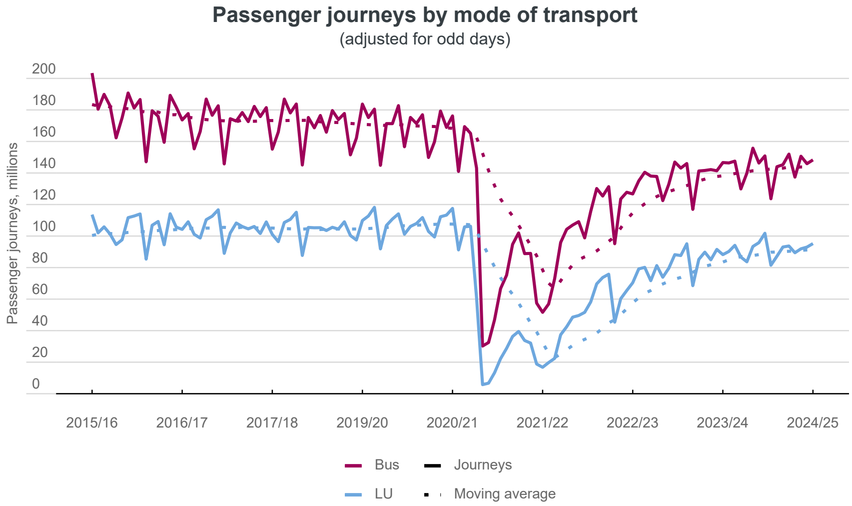
GLA Economics will continue to monitor all these and other aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport 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.

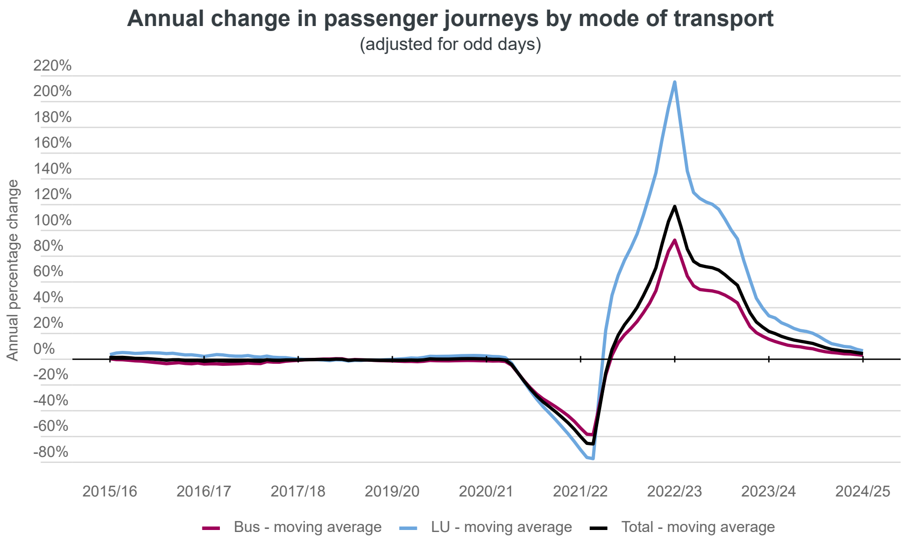
Source: Transport for London
Latest release: August 2024, Next release: October 2024



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.

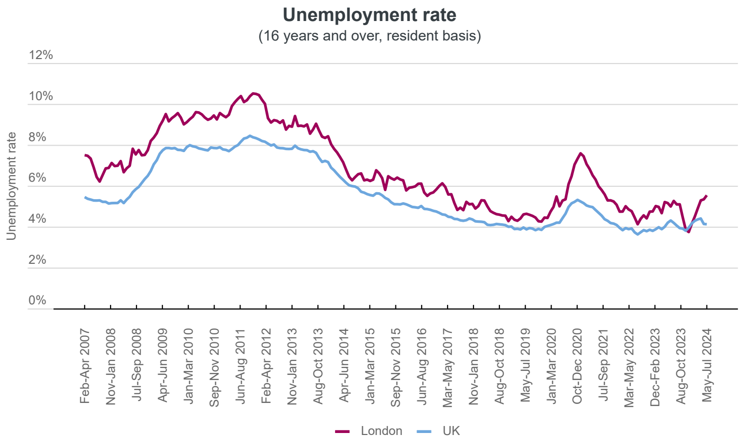
Source: Transport for London
Latest release: August 2024, Next release: October 2024



London's unemployment rate increased over the last quarter

- Around 270,000 residents aged 16 and over were unemployed in London in the period from May to July.
- The unemployment rate in London for that period was 5.6%, an increase from 4.9% in the previous quarter February - April.
- The UK's unemployment rate decreased slightly to 4.1% in May - July, down from 4.4% in February - April.
- 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.

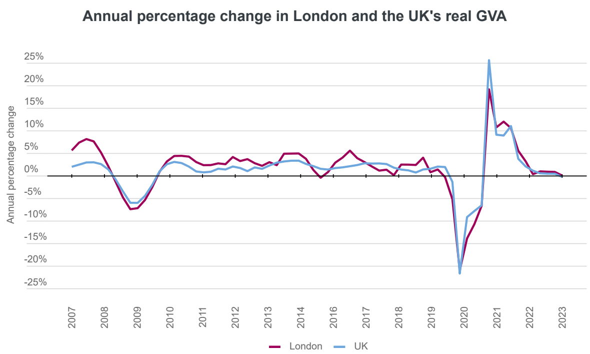
Source: ONS Labour Force Survey
Latest release: September 2024, Next release: October 2024



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.

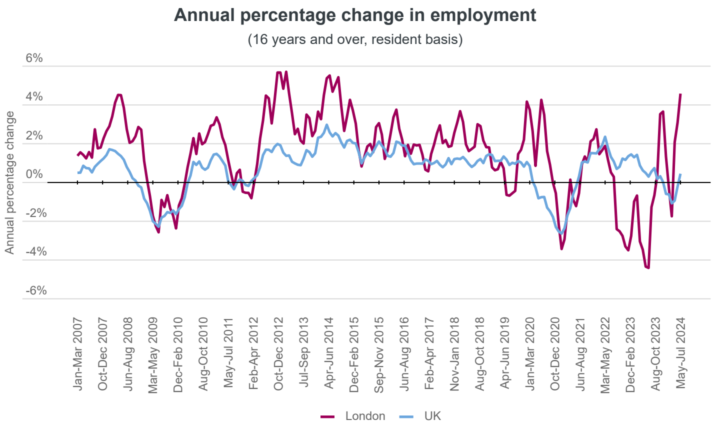
Source: ONS and GLA Economics calculations
Latest release: July 2024, Next release: December 2024



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

- Around 4.8 million London residents aged 16 and over were in employment during the three-month period from May to July.
- London's annual change in employment increased by 4.6% in the year to this quarter, compared to a 1.7% drop during the period from February to April.
- The UK experienced a 0.5% increase in employment in the latest quarter, this compares to a 1.1% 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.

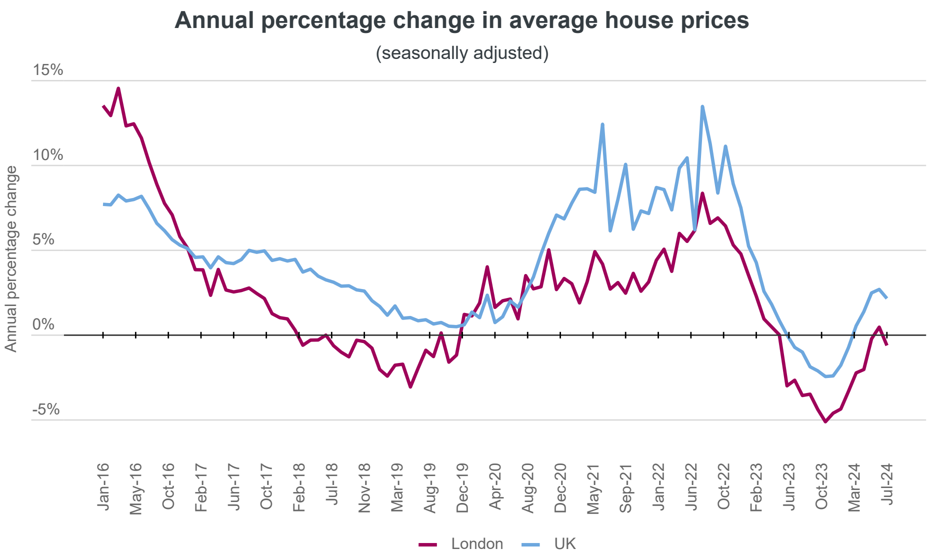
Source: ONS Labour Force Survey
Latest release: September 2024, Next release: October 2024



On an annual basis house prices fell in London in July

- In July, the average house price in London was £514,000 while in the UK it was £284,000.
- Average house prices in London fell by 0.6% year-on-year in July, compared to an increase of 0.5% in June.
- Average house prices in the UK rose by 2.2% on an annual basis in July, a smaller change than the increase of 2.7% in the year to June.

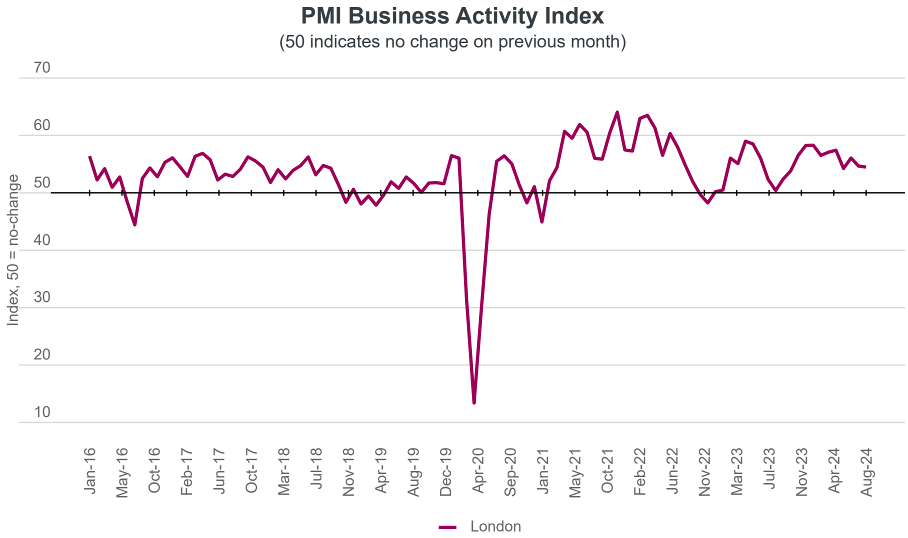
Source: Land Registry and ONS
Latest release: September 2024, Next release: October 2024



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

- The business activity PMI index for London private firms decreased marginally from 54.6 in July to 54.5 in August.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

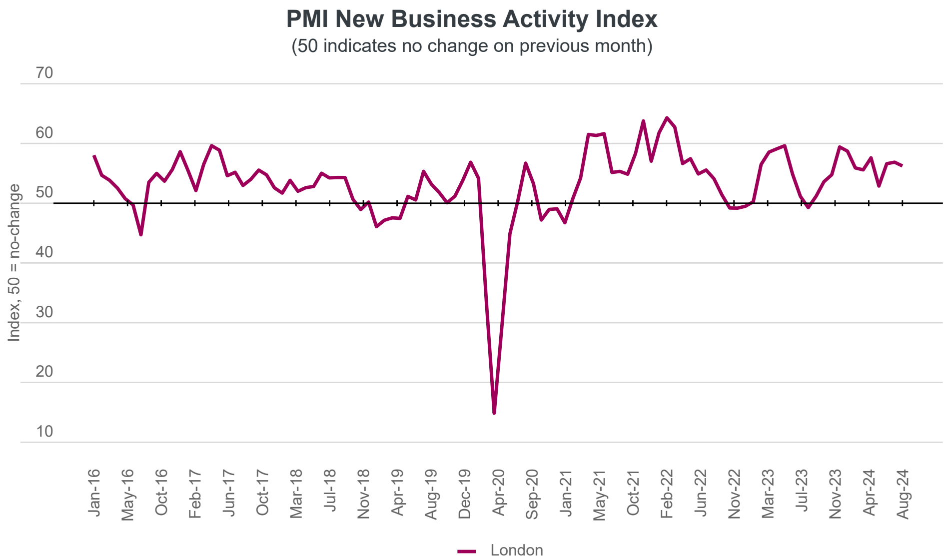
Source: IHS Markit for NatWest
Latest release: September 2024, Next release: October 2024



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

- The PMI new business index in London decreased slightly from 56.9 in July to 56.2 in August.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

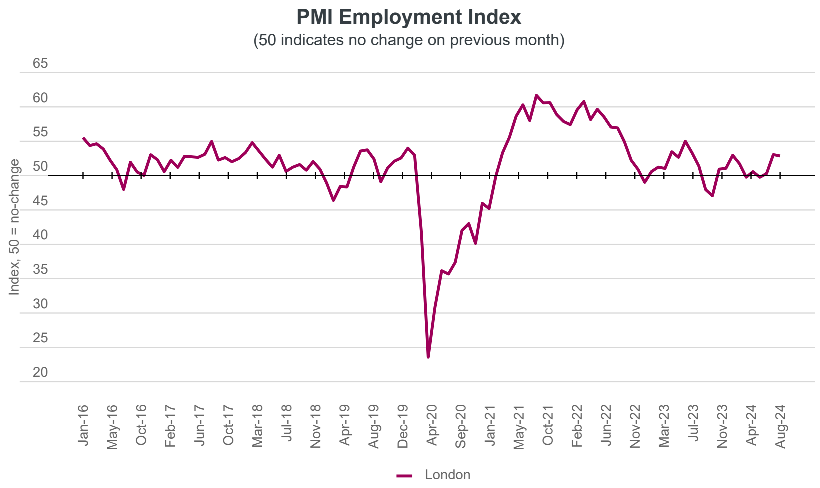
Source: IHS Markit for NatWest
Latest release: September 2024, Next release: October 2024



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

- The Employment Index for London decreased marginally from 53.1 in July to 52.9 in August.
- 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.

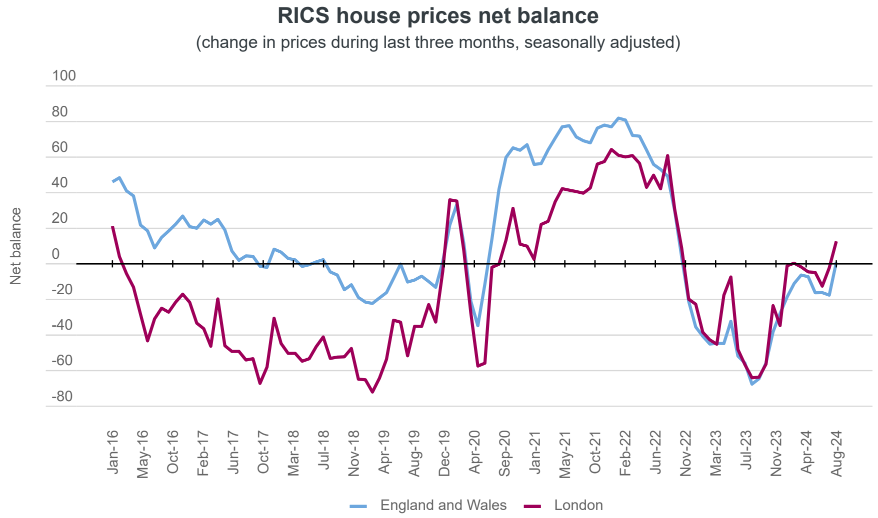
Source: IHS Markit for NatWest
Latest release: September 2024, Next release: October 2024



Over half of property surveyors in London reported house price increases in August

- In August, more property surveyors in London reported rising prices than falling prices. The net balance index was 13 and it was -2 in July.
- For England and Wales, the RICS house prices net balance index improved and turned positive from -18 in July to 1 in August.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

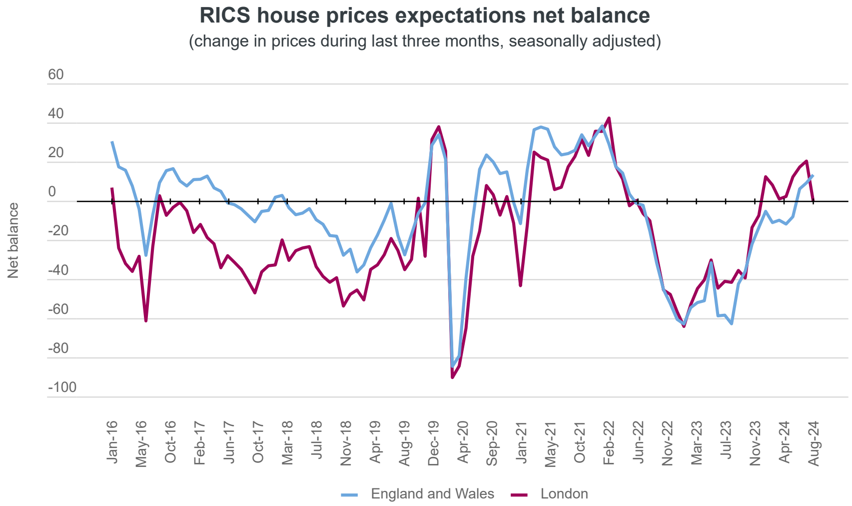
Source: Royal Institution of Chartered Surveyors
Latest release: September 2024, Next release: October 2024



In August, 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 0 in August, a sharp drop from the 21 measured in July.
- The index for England and Wales was 14 in August, and was 9 in July.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

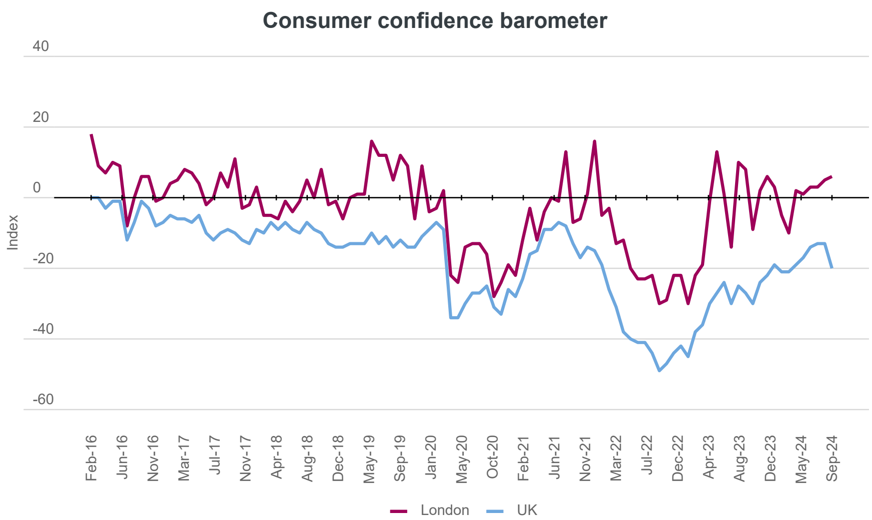
Source: Royal Institution of Chartered Surveyors
Latest release: September 2024, Next release: October 2024



Consumer confidence in London increased marginally in August

- The consumer confidence index in London increased marginally from 5 in August to 6 in September.
- The sentiment for the UK decreased from -13 to -20 over the two months. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

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



Payrolled employments by nationality

By **Guillaume Paugam**, Economist

The share of payrolled employee jobs among London residents that are held by non-UK nationals has been increasing since the UK's formal exit from the European Union and the start of the pandemic in early 2020. A big increase in jobs held by non-EU/non-UK citizens has been driving this change, even as the number held by EU citizens has fallen. We have recently published analysis looking into this.

It examines payrolled employee jobs over the period from July 2014 to December 2023, using HMRC data. This includes three years of the new points-based immigration regime implemented in January 2021, which corresponds to the end of free movement between the EU and the UK.

Last week, HMRC released new data for the same time period, which further breaks-down the trends shown here by gender and by age and will be the subject of further analyses in the future.

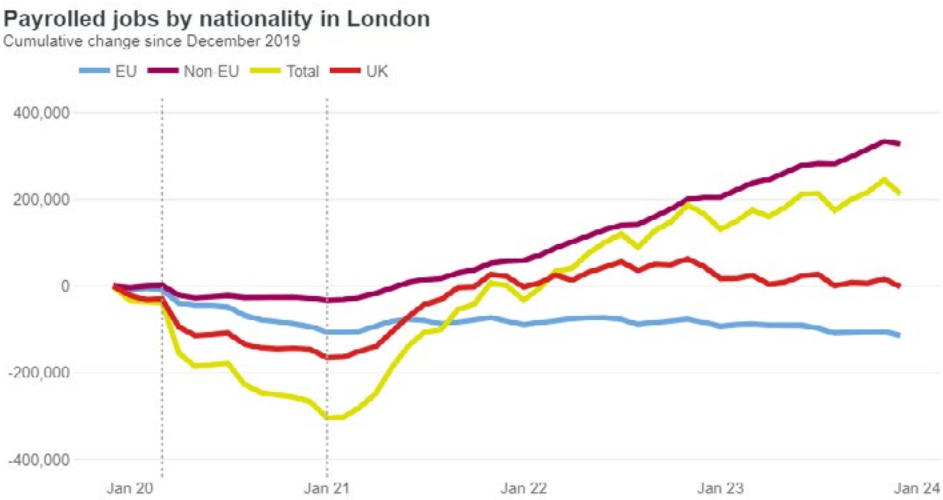


Figure A1

Source: HM Revenue and Customs – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan.

Note: Estimates are based on where employees live. Vertical lines indicate beginning of lockdowns in March 2020, and end of free movement in January 2021, respectively.

The data shows that the number of jobs among London residents held by non-UK/non-EU workers – henceforth Rest of the World (RoW) – reached nearly 1.18 million in December 2023, up from around 850,000 four years earlier. Jobs held by EU workers fell to around 740,000 from 850,000, and UK worker employments held steady at 2.73 million.

Figure A1 shows the cumulative change in workers by nationality group in London since the eve of the pandemic: the gain of more than 300,000 payrolled employee jobs from the Rest of the World has sustained most of the payrolled employee growth in London over the period.

Jobs held by EU workers in London are now below their June 2016 level, and way below the number of jobs held by RoW workers, whereas just before the pandemic, in December 2019, there were roughly as many EU and RoW payrolled jobs in London.

Figure A2 shows the importance of the non-UK workforce by region/country of the UK.

More than 40% of payrolled jobs of Londoners are held by non-UK workers (25.4% RoW and 15.9% EU), compared to 18% nationally, and 19% in the South-East, the second region with the most non-UK jobs.

The London rate is more than four times bigger than the rate in Wales, the country/region with the lowest number of jobs held by non-UK citizens.

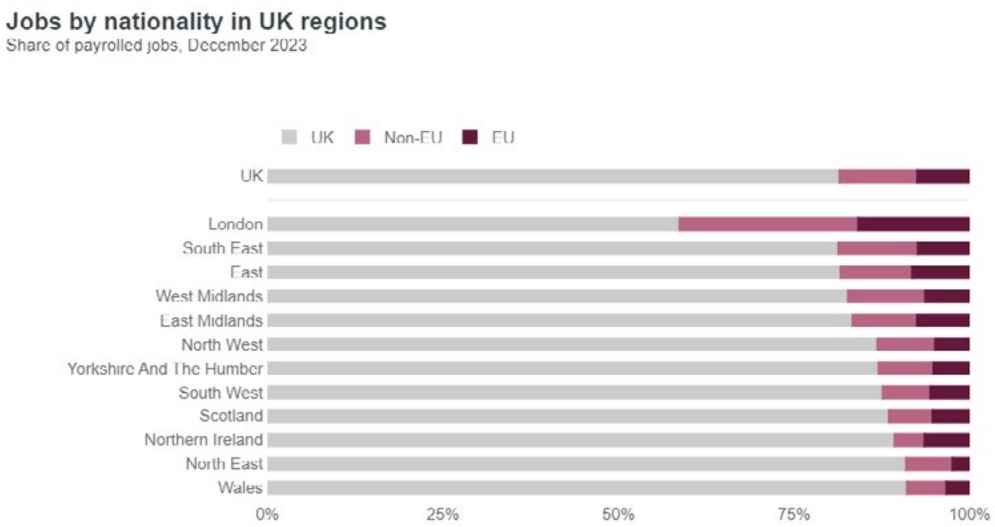


Figure A2

Source: HM Revenue and Customs – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan.

Note: Estimates are based on where employees live.

But London has seen smaller proportional gains of RoW jobs than the rest of the country since free movement with the EU ended and lost slightly more EU-held employments, as shown in Figure A3.

There are also important variations in how much different sectors of London's economy rely on UK, EU and RoW workers, and in the sectoral changes over time in the number of workers by nationality group, which Figure A4 explores.

In December 2023, the three biggest industries in terms of payrolled jobs in London were the Health & Social Care sector (576,800 payrolled jobs), the Wholesale and Retail sector (559,800), and the Professional Services sector (549,700).

The number of London residents' jobs in Health & Social Care was just under 600,000 at the end of 2023. The post-2020 rise in payrolled jobs in the sector is almost entirely supported by RoW workers.

The number of payrolled jobs in retail is still below pre-pandemic levels and it is the only sector in London under pre-pandemic levels as of December 2023, with fewer EU and UK workers but more RoW workers.

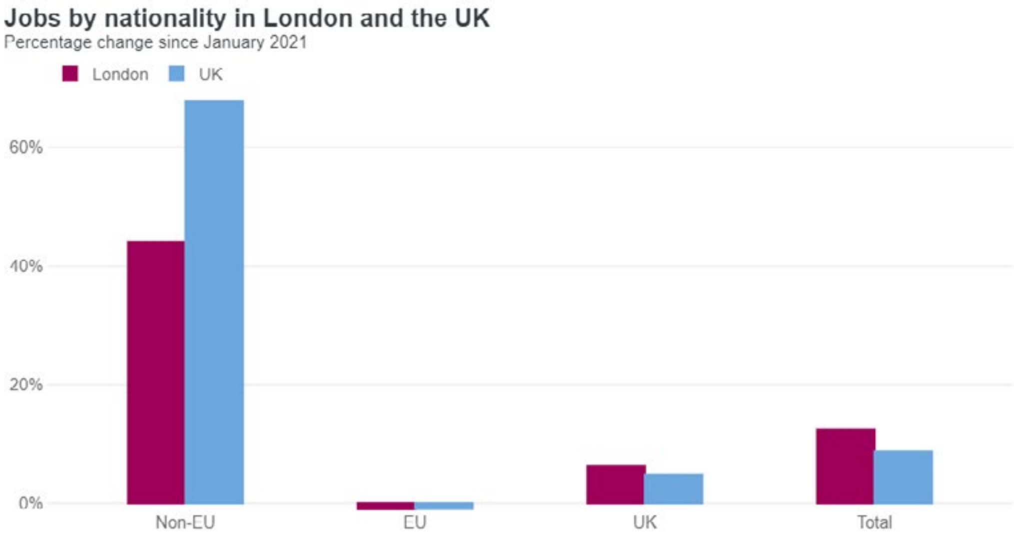


Figure A3

Source: HM Revenue and Customs – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan.

Note: Estimates are based on where employees live.

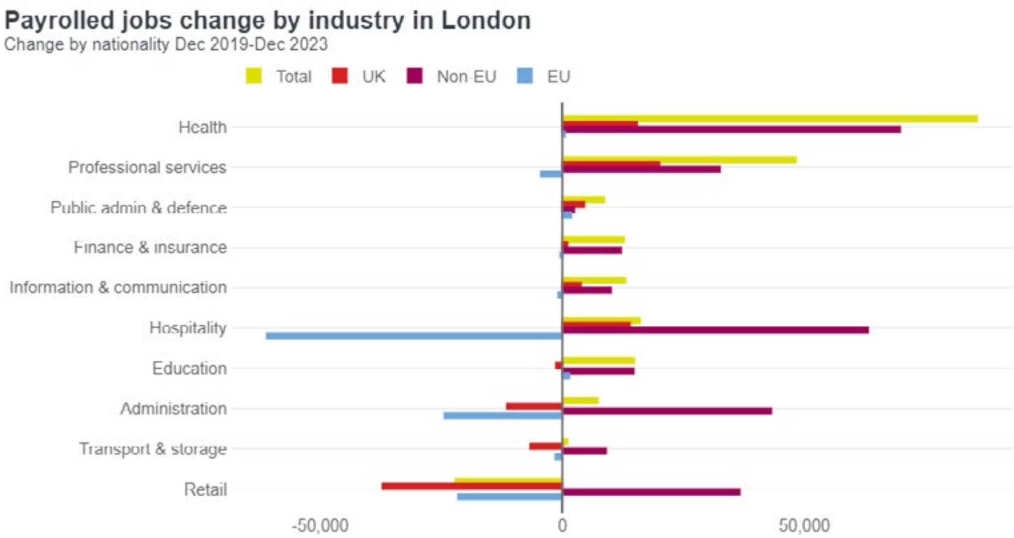


Figure A4

Source: HM Revenue and Customs – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan.

Note: Estimates are based on where employees live.

Professional services jobs have grown throughout the 2020-2023 period, with the sector gaining nearly 50,000 payrolled jobs between December 2019 and December 2023. The rise in RoW workers is the key component of this growth, with the number of UK workers also rising.

How the Finance & Insurance sector would fare in the post-Brexit context has generated a lot of public debate and research. There were more jobs in the sector in December 2023 than in December 2019, despite a small fall in the number of EU-held jobs in that period. That fall seems to be linked to the onset of the pandemic, as the number of EU-held jobs in the industry rose in the more recent period between January 2021 and December 2023.

Finally, the hospitality sector lost many jobs during the lockdowns, affecting workers of all nationality groups. From 2014 to 2020 there were more EU workers in hospitality than there were UK or ROW workers. But the jobs recovery after the loss of around 100,000 jobs (or 25% of the pre-pandemic workforce) during lockdowns, was uneven.

In hospitality, there were only 113,000 payrolled EU jobs in December 2023, down from 174,000 in December 2019. This has been compensated by a rise in UK and RoW payrolled jobs. UK jobs rose from 156,00 to 171,000 over the same period, while RoW jobs rose from 92,000 to 155,000.

Overall, the story in London is a rise in the number of payrolled employee jobs held by non-UK workers, with a sharp increase of RoW jobs, a fall in EU jobs, and a steady number of jobs held by UK citizens. London stands-out in the UK in terms of how much its workforce relies on non-UK workers. 32.3% of all payrolled employee jobs in the country that are held by non-UK nationals are located in London, though this is down from 39% a decade ago. Different sectors of the economy rely on different nationality mixes in their workforce, and have fared differently regarding changes in UK, EU, RoW and total workers since 2019.

These issues and more are explored in detail in our latest release on employment by nationality in London, which offers more trends and a deep-dive into a selected few sectors of the economy facing shortages of workers. We regularly update this analysis as new data becomes available, and as part of our wider research and analyses of the London labour market, which can be found on the London Datastore.

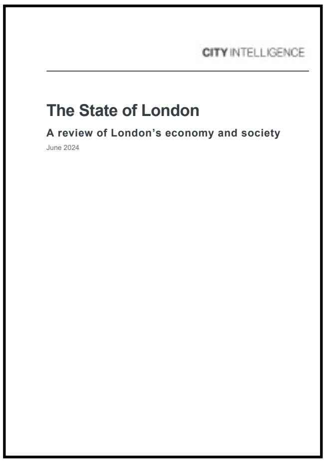
Our latest publications

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.

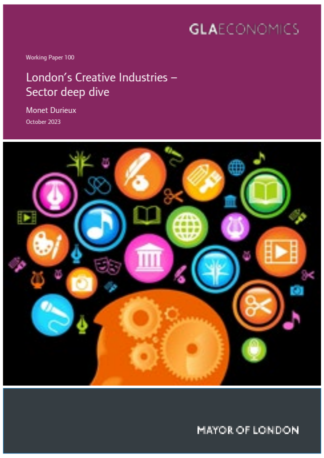
View all the GLA Economics publications on our website.



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.

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