GLAECONOMICS

Forecast report

London's Economic Outlook: Spring 2025
The GLA's medium-term planning projections

June 2025

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Tel 020 7983 4000

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For more information about this publication, please contact:

GLA Economics

Tel 020 7983 4000

Email glaeconomics@london.gov.uk

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Contents

1 Executive summary

GLA Economics' 46th London forecast[1] suggests that:

- London's real Gross Value Added (GVA) is forecast to grow by 1.6% in 2025, supported by moderating domestic inflation and improving household sentiment, though global trade disruptions and lingering inflationary risks remain key sources of uncertainty. Growth is expected to strengthen modestly to 1.7% in 2026 and 1.9% in 2027, with growth supported by a more stable macroeconomic environment.
- Workforce jobs[2] in London are projected to increase by 0.8% in 2025, as the labour market continues to cool following the post-pandemic rebound. Job growth is expected to pick up to 1.0% in 2026 and 1.3% in 2027, supported by strengthening labour demand and a gradual return to trend employment growth.
- Household income is expected to rise by 2.6% in 2025, supported by falling inflation and rising wages. Growth is forecast to slow to 1.4% in 2026, with a modest rebound to 1.5% in 2027.
- Household spending is expected to grow by 2.5% in 2025, before easing to 2.4% in 2026 and 2.1% in 2027.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. While the UK economy shows signs of stabilisation following the peak of the cost-of-living crisis, significant uncertainty remains especially around US trade policy. This reflects ongoing global geopolitical tensions, trade disruptions, lingering inflationary pressures, and weak productivity growth. As a result, the forecasts presented in this document should be interpreted as a baseline scenario for London's economy in the medium term. This is the most likely scenario in GLA Economics' judgment, but there are many plausible alternatives.

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

Annual growth rates (per cent)	2024[3]	2025	2026	2027
London GVA (constant 2022, £ billion)	1.1%	1.6%	1.7%	1.9%
Consensus (average of independent forecasts)		1.7%	1.8%	2.3%
London workforce jobs	0.8%	0.8%	1.0%	1.3%
Consensus (average of independent forecasts)		1.1%	1.1%	0.9%
London household expenditure (constant 2022, £ billion)	0.9%	2.5%	2.4%	2.1%
London household income (constant 2022, £ billion)	4.6%	2.6%	1.4%	1.5%
Memo: Projected UK RPI[4] (Inflation rate)	3.6%	4.0%	3.6%	3.5%
Projected UK CPI[5] (Inflation rate)	2.5%	3.0%	2.4%	2.2%

Source: GLA Economics' Spring 2025 forecast

[1] The forecast is based on judgements and a recently updated econometric model built by GLA Economics. For more details see 'The new GLA Economics forecast models for London's economy, GLAE Working Paper No.98, June 2020'.
[2] Unless stated otherwise, any reference to jobs in the main text refers to total workforce jobs.
[3] Historic data for London's real GVA and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics estimates.
[4] RPI = Retail Price Index. Although not part of the GLA Economics forecast for London. Instead, the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2025). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2025. Data for 2024 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics.
[5] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London. Instead, the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2025). 'Forecasts for the UK economy: a comparison of independent forecasts', May 2025. Data for 2024 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics. Since December 2003, the Bank of England's symmetrical inflation target is annual CPI inflation at 2%.

Since the Autumn 2024 LEO[6], economic news has centred on two trends: the UK's stronger-than-expected economic performance, supported by easing inflation and resilient household demand; and mounting global risks, including trade disruptions and geopolitical tensions, which continue to cloud the external outlook.

The UK economy showed strong momentum at the start of 2025. GDP grew by 0.7% in the first quarter, following a modest 0.1% expansion in the final quarter of 2024. This was the fastest rate of growth among G7 economies during the period, with the UK outperforming the United States, Germany, and France. According to the Office for National Statistics (ONS), the service sector, an important sector for London, grew by 0.7% in the quarter, and 9 of 14 service subsectors contributed positively to growth in Q1 2025. Real GDP per head also increased by 0.5%, marking a return to growth after two consecutive quarterly declines. However, momentum faltered in April, as monthly GDP fell by 0.3%, led by a 0.4% decline in services output. This setback coincides with the introduction of higher taxes and new US tariffs.

The mixed signals have led to cautious optimism. Institutions such as the Bank of England (BOE) and the International Monetary Fund (IMF) have upgraded their forecasts for UK economic growth this year, but they also emphasise that structural vulnerabilities remain. Inflation remains a concern, particularly in services. Productivity growth continues to lag behind both historical standards and international comparisons. High levels of public debt limit the government's fiscal flexibility, and investment levels – both from the public and private sectors – remain subdued. Trade tensions have also resurfaced, (notably with the United States), and adds further complexity to the outlook for UK exporters and international firms, especially those based in London.

Inflation remains a concern, particularly in services, where wage growth and input costs continue to contribute to upward pressure. Headline inflation stood at 3.5% in April, surpassing most forecasts. Services inflation, which is particularly relevant to London where services account for over 90% of economic output, was still 5.4% in April. These persistent price pressures complicate the policy outlook and may continue to weigh on household spending and finances, especially in regions with higher living costs such as London.

At the same time, global trade risks have intensified. The return of protectionist measures, especially under the new US administration, has raised barriers for UK exporters. In April 2025, the United States imposed broad-based tariffs on UK goods, including a 10% general tariff on all UK exports and higher duties on strategic sectors such as automotive and metals. This created additional pressures for internationally focused firms, particularly those in London, which rely heavily on global trade and investment flows. Uncertainty over future trade relations, alongside ongoing geopolitical instability and weak global demand, further complicates the outlook for the UK's external sector. Box 3.1 examines the role of tariffs as a policy instrument, analysing their theoretical underpinnings, economic distortions, and strategic applications, with particular attention to their macroeconomic and sectoral implications for the UK, and London's economy in particular.

Labour market conditions have begun to cool after a prolonged period of tightness. The UK unemployment rate rose to 4.6% in the three months to April 2025, the highest rate since late 2021. At the same time, there have been some signs of improved participation, with the economic inactivity rate among those aged 16 to 64 declining slightly to 21.4%. London's labour market reflected these national developments. The capital's unemployment rate rose to 6.4% in the period from February 2025 to April 2025, with around 327,000 residents aged 16 and over unemployed. Job postings have declined for several months, with notable weakness in consumer-facing industries. Economic inactivity remains relatively high, especially

[6] GLA Economics (2024), London's Economic Outlook: Autumn 2024, December 2024.

among younger and older age groups. Although wage growth has stayed ahead of inflation, recent data shows that pay increases are moderating.

Looking ahead, hiring is likely to remain subdued. Many firms are cautious amid weak demand and rising operational costs. Tighter immigration rules, including changes to visa eligibility and family accompaniment, may reduce the supply of workers in industries such as health, construction, and hospitality. At the same time, global uncertainty and reduced export demand may delay business expansion and weigh on recruitment plans. Over time, however, labour market activity is expected to recover gradually, as inflation stabilises and monetary policy loosens.

Despite ongoing risks, there are reasons for optimism about London's economy. London continues to outperform the national average, thanks to its global economic ties, high-value service sectors, and above-average productivity levels. Services represent over 93% of London's economic output, with finance, professional services, and technology continuing to drive growth. Though the latest statistics show that the services sector contracted in April 2025, it grew by 0.6% over the three months to April, underscoring its sustained contribution to growth. Tourism and business travel have also rebounded, adding further momentum. Consumer sentiment indicators also suggest that London remains relatively optimistic. In May 2025, the consumer confidence index in London stood at +3, significantly higher than the national figure of -20. This divergence highlights London's greater resilience in the face of broader economic pressures. The UK has not seen a positive index score since January 2016.

Given this mixed background, the GLA Economics reference scenario for London sees that the capital's output is expective to grow 1.6% in 2025. Growth should recover near to long-term rates in 2027. Employment growth is projected to keep the soft cooling momentum from 2024, with a growth rate of 0.8% in 2025, and slightly improved in the following two years at 1.0% in 2026 and 1.3% in 2027, supported by stabilising economic conditions, and slightly stronger hiring in some sectors (see Figures 1.1 & 1.2 and Chapter 5 for more detail). Both jobs and output are projected to follow a steady recovery and be comfortably above their pre-pandemic levels (see Figure 1.3).

Real income growth is forecast to moderate, rising by 2.6% in 2025, then slowing to 1.4% in 2026 and 1.5% in 2027. This reflects expectations of weaker wage growth, persistent cost pressures (especially in services and housing), and potential constraints from fiscal and migration policy changes that could affect disposable incomes.

Real household spending is expected to rebound strongly in 2025, rising by 2.5% as consumer sentiment improves and purchasing power stabilises. Spending is forecast to grow by 2.4% in 2026 and 2.1% in 2027, tracking the slowdown in income growth. The forecast suggests that, while households may resume more normal consumption patterns in the short term, structural cost pressures and economic uncertainty are likely to keep spending growth below pre-pandemic trends.

The economic outlook for both London and the UK remains highly uncertain. Rising global trade tensions are a major source of uncertainty in the short term. The imposition of US tariffs on a wide range of global exports – including UK goods – has heightened concerns, with firms facing delays and uncertainty around the outcome of ongoing negotiations. A 90-day deferral on the imposition of some tariffs has added to this ambiguity. Early evidence from the April GDP data suggests that these measures may already be weighing on economic activity, raising questions over the duration and extent of their impact. This uncertainty has made it more difficult for firms to plan and invest confidently, especially in globally exposed sectors such as those concentrated in London. Moreover, wider global trade friction may continue to affect financial flows and investor sentiment, even when UK businesses are not directly targeted.

While inflation has moderated from its 2022 peak, the path toward sustained stabilisation around the Bank of England's 2% target is unclear. If inflation remains persistently elevated, the Bank may be compelled to maintain higher interest rates for longer, increasing the risk of financial strain for households and businesses.

Global conditions further complicate the outlook. Slowing demand in major economies such as the United States, China, and the Eurozone risks dampening export opportunities and weakening investor sentiment. Broader geopolitical instability – including prolonged conflicts in Ukraine and the Middle East – continues to generate volatility in energy markets and global supply chains. These disruptions have increased uncertainty for internationally engaged businesses, particularly in London, where economic performance is closely tied to global financial flows, trade, and investor confidence. While London's international orientation remains a strength, it also makes the capital more sensitive to shifts in the external environment, especially when those shifts affect key partners and markets.

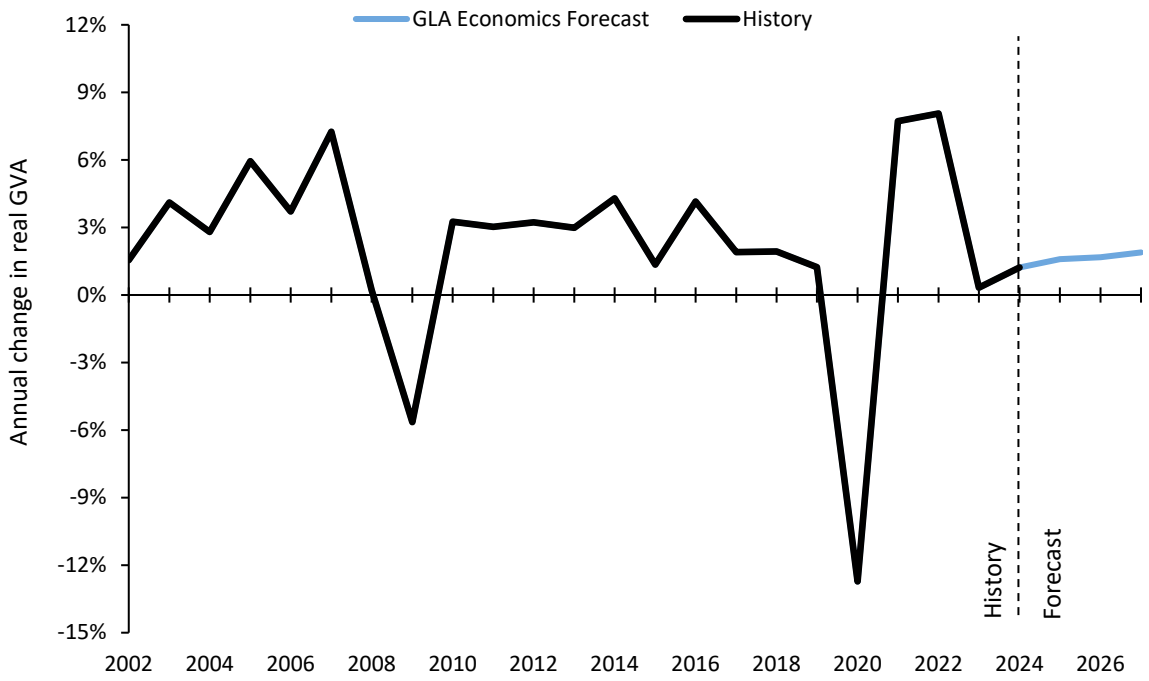
Public debt in the UK has risen significantly in the wake of pandemic-related support and sustained investment in infrastructure and green energy. As of early 2025, public sector net debt stands at around 96% of GDP – nearly 15 percentage points higher than pre-pandemic levels. While these investments aim to support long-term growth and the transition to net zero, they have also narrowed fiscal headroom. With tax rises now taking effect, there is growing concern that tighter fiscal conditions could dampen private sector investment and economic momentum.

Brexit continues to pose long-term challenges for London's economy. While the Windsor Framework and recent UK-EU talks have eased some trade frictions, the Trade and Cooperation Agreement still excludes services – an area where London is most exposed. Non-tariff barriers remain, raising import costs and complicating supply chains. The end of free movement has reduced labour mobility, and London has struggled more than other regions to replace lost EU workers. Recent visa reforms in 2025 have further tightened migration rules, raising skill thresholds and limiting access to key sectors like social care. These changes risk deepening labour shortages in a city that remains heavily reliant on international talent.

In response to this elevated uncertainty, GLA Economics has developed macroeconomic scenarios around the baseline, which are regularly updated to reflect changing conditions. Details of these scenarios are set out in Chapter 5.

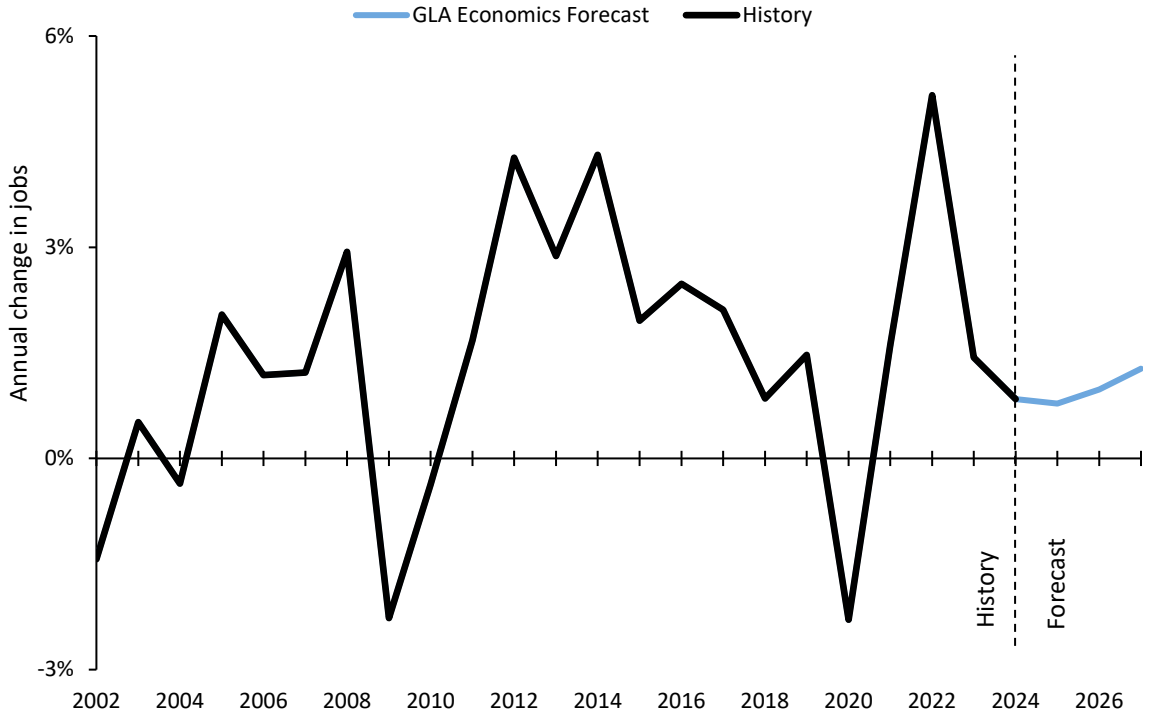
In conclusion, The UK's stronger-than-expected growth in the first quarter of 2025 delivered a welcome surprise, and London's concentration in high-performing service sectors placed it ahead of the UK as a whole. The capital's internationally oriented industries, such as finance, professional services, and technology, were well positioned to benefit from the rebound in global activity and improved domestic sentiment. However, the recovery remains fragile. The most immediate concern is the impact of renewed US trade measures, which have already shown signs of dampening growth in April's GDP figures. Other uncertainties include volatile inflation trends, tighter financial conditions, geopolitical instability, and ongoing trade frictions – each posing challenges to business planning, investment, and household confidence. As shown in the evolution of our London forecast (see Figures 1.4 & 1.5), the economy is not expected to return to pre-pandemic trends in the near term.

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



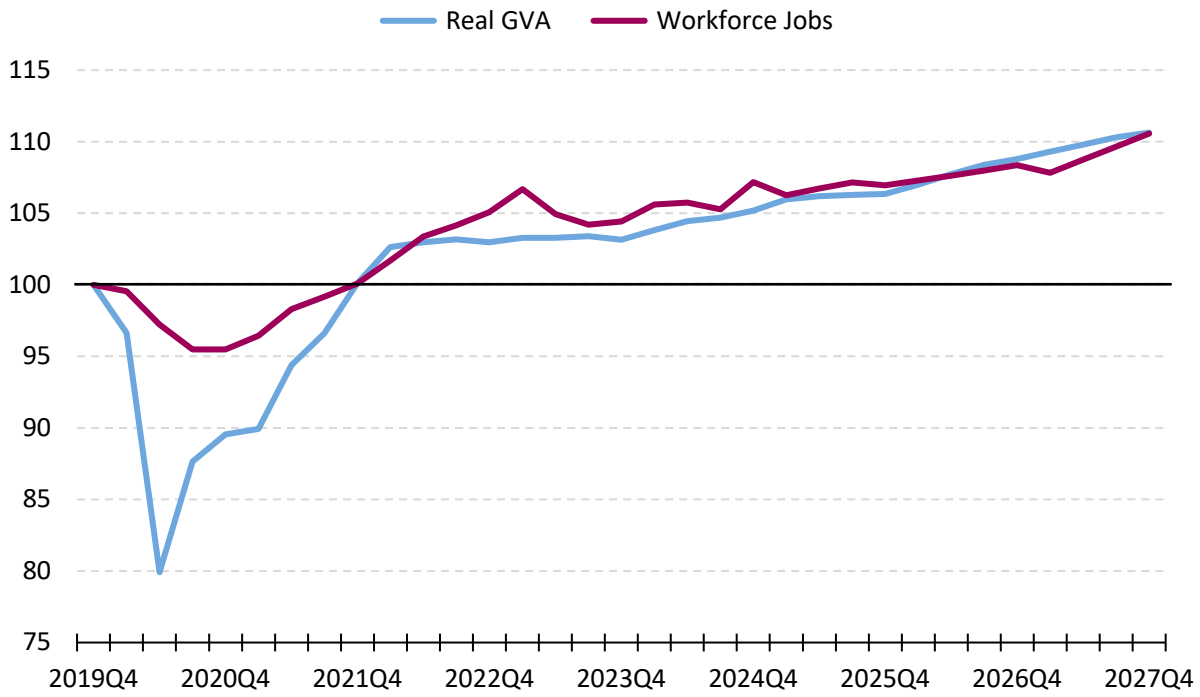
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

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



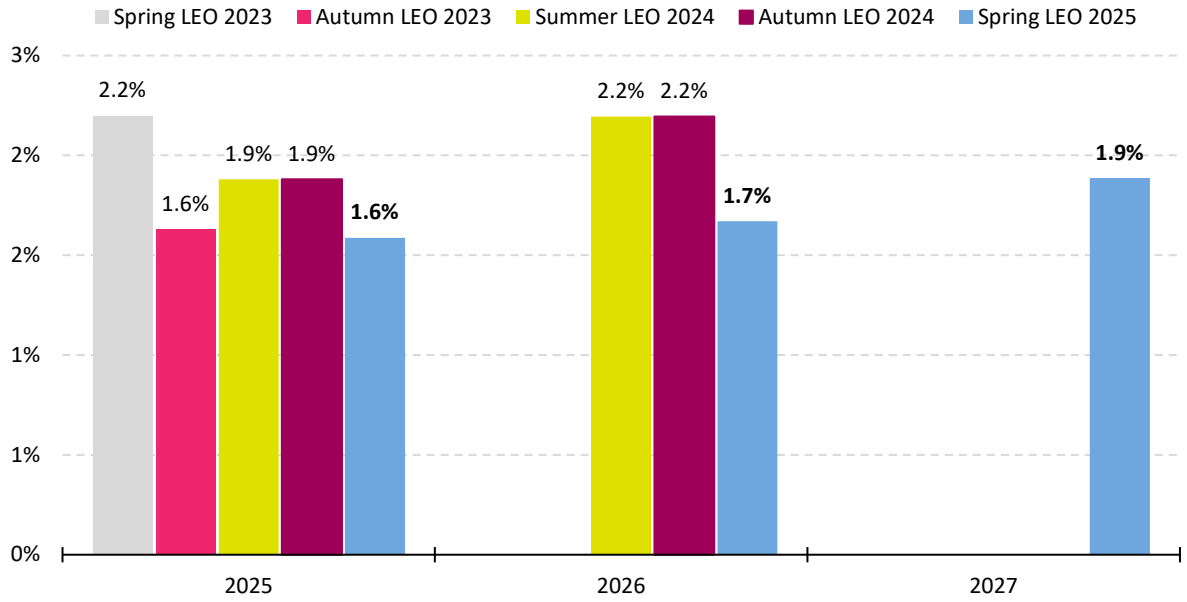
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

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



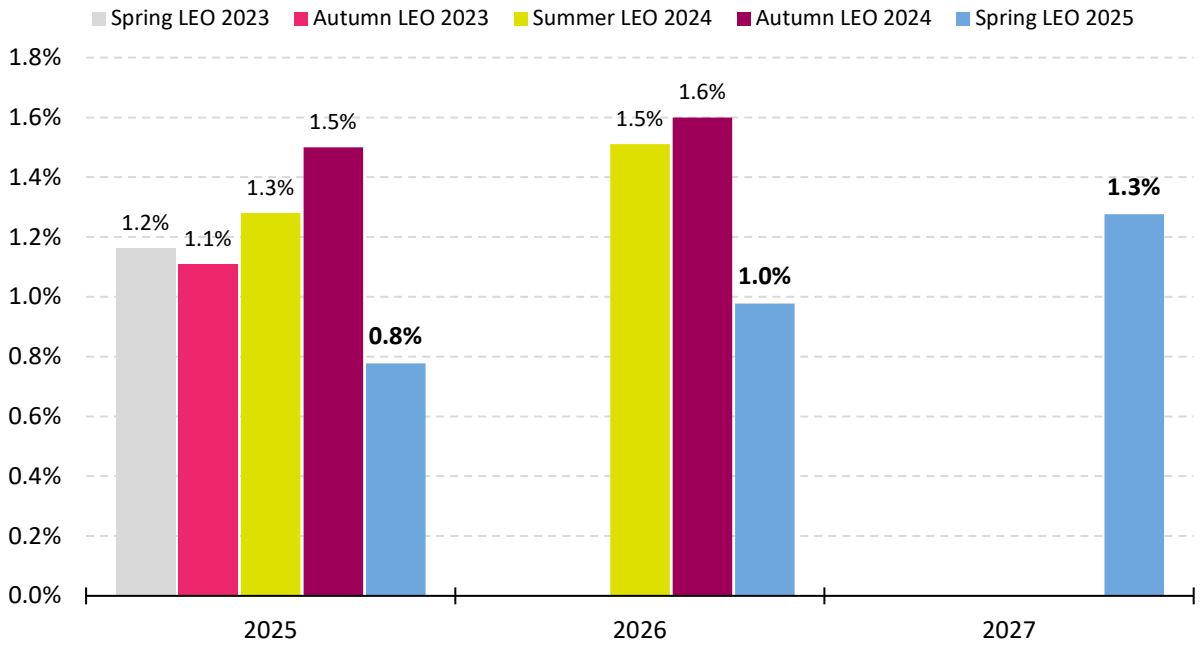
Source: GLA Economics; Note: Triangles mark the point at which pre-pandemic levels reached

Figure 1.4: Development of reference scenarios for London annual real GVA growth rates 2022-2024



Source: GLA Economics

Figure 1.5: Development of reference scenarios for London annual jobs growth rates 2022-2024



Source: GLA Economics

2 Introduction

The spring 2025 edition of London's Economic Outlook (LEO) is GLA Economics' 46th London forecast. The forecasts are issued roughly every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

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

2.1 Note on the forecast

Any economic forecast represents the forecaster's view of most likely future path for the economy and is inherently uncertain as a result. Both modelling and data uncertainty, as well as unpredictable events, contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast is based on a blend between an in-house model built by GLA Economics[7] and a set of judgements. Before 2016, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- The Centre for Economic and Business Research (CEBR)
- Experian Economics (EE)
- Oxford Economics (OE)
- S&P Global Market Intelligence (SP)[8]

Economic forecasting is not a precise science. Furthermore, the GLA designs these projections as a scenario consistent with the Bank of England's forecast published in May[9] and the OBR forecast published in March[10]. Our forecasts provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen. As a result, there are significant risks, mainly on the downside, associated with this scenario.

[7] The forecast model used in this forecast has updated the model described in this publication: Douglass, G & van Lohuizen, A (2016). 'The historic performance of the GLA's medium-term economic forecast model', GLA Economics Current Issues Note 49, November 2016. A description of this new forecast model can be found in Orellana, E. (2020) 'The new GLA Economics forecast models for London's economy', GLA Economics Working Paper 98.
[8] S&P do not provide a forecast for household expenditure in London.
[9] Bank of England (2025), 'Monetary Policy Report', 8 May 2025.
[10] OBR (2025). 'Economic and fiscal outlook – March 2025', 26 March 2025.

3 Economic outturn: UK exhibits better-than-expected growth, while London's economy shows greater optimism and renewed momentum

This chapter provides an overview of recent economic developments in London (looking at factors such as output and the workforce), risks to London's economy, and discusses developments and the near-future prospects of the UK and global economies.

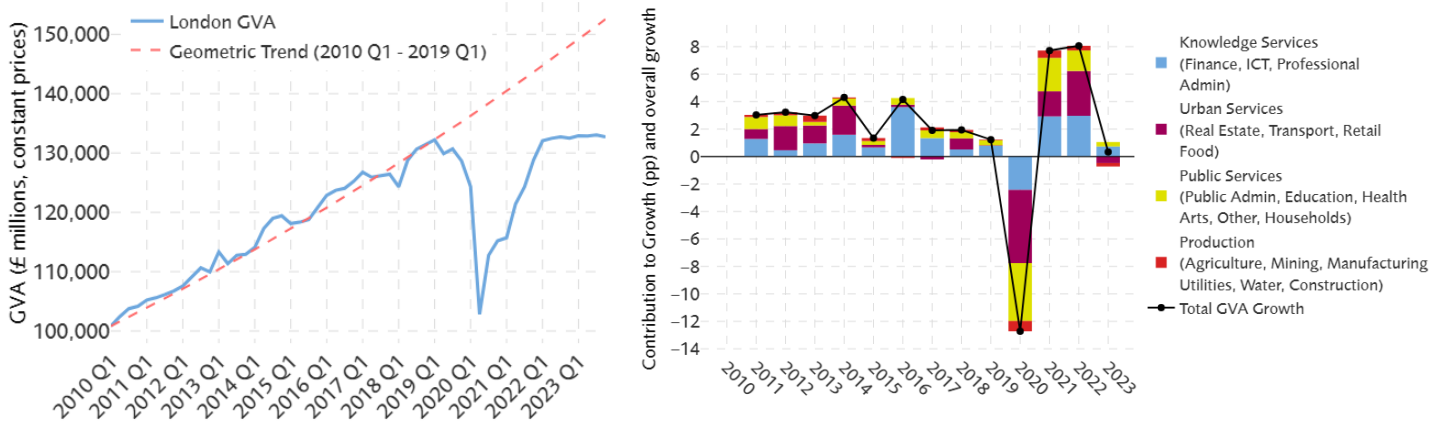
3.1 London's Economy

London's output

We should first reiterate that the Office for National Statistics (ONS) has recently conducted a comprehensive re-estimation of historical regional GVA figures, revising data back to 1998[11]. This re-estimation aimed to (1) improve data sources, (2) enhance measurement methodology, and (3) align regional and national accounts. The revisions have reshaped GLAE's understanding of London's recent economic history, ensuring that all subsequent analysis has been underpinned by the most reliable data[12].

The latest ONS data on London's GVA indicates that output remains below the pre-pandemic (2010-2019) trend – and marginally above pre-pandemic levels (see LHS of Figure 3.1). Output grew marginally by 0.3% on the year in 2023 (see RHS of Figure 3.1), driven by growth in the Knowledge-Intensive Service and Public Service sectors – and contractions in the Production and Urban Service sectors (see Figure 3.1 RHS legend for exact broad-industry aggregations).

Figure 3.1: Real GVA levels (LHS) and annual growth contribution by broad industry classification (RHS)



Source: GLA analysis of ONS regional GVA data

Timelier data, looking at UK output growth points to annual growth of 1.1% in 2024, driven by strong growth in the services sector. This suggests that London's economy (heavily concentrated in the service sector) has likely experienced continued, albeit modest, growth throughout 2024. The GLAE nowcast, underpinned in part by UK GVA data, models 1.1% annual growth in London's GVA in 2024 (as mentioned in Chapter 1 and discussed in detail in Chapter 5).

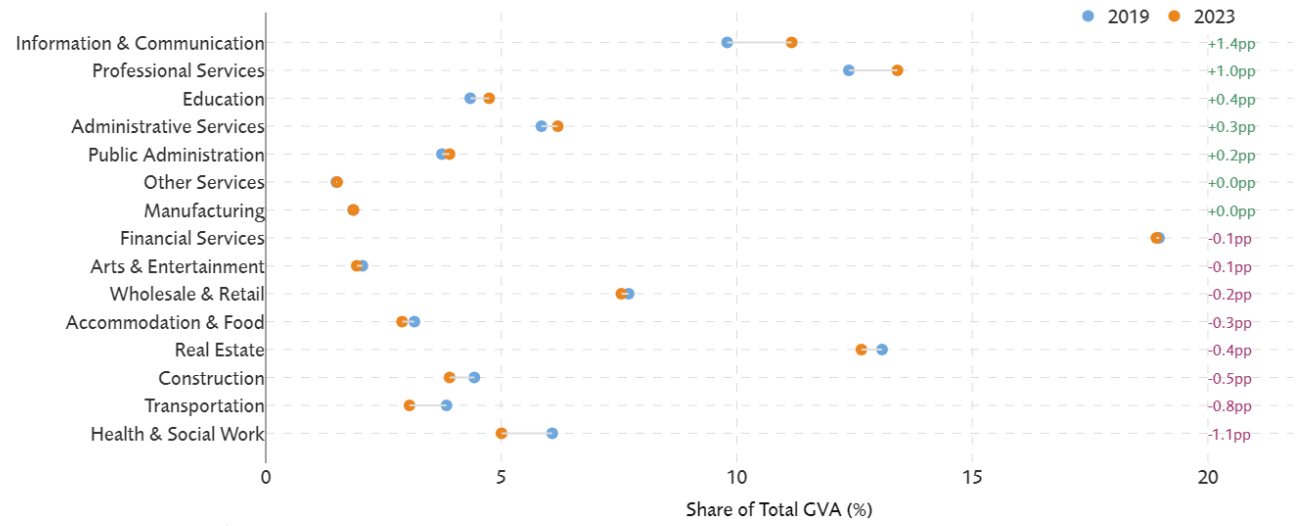
Moving beyond aggregate output, the pandemic's impact and subsequent recovery have resulted in sustained shifts in the composition of London's output. Sectors reliant on in-person services have generally

[11] GLA Economics (2024), *London's Economic Outlook: Summer 2024 (Box 3.1), July 2024)*
[12] *ONS (2024), Revision Triangles: Regional Gross Value Added (Balanced), May 2024*

shrunk in their shares of London's total output, while many white-collar (high productivity) service sectors have grown in their share (see Figure 3.2).

The highest growth in shares of output has been in the Information & Communication sector (which grew from 9.8% of London's output in 2019 to 11.2% in 2023) and the Professional & Technical Activities sectors (which grew from 12.4% to 13.4%). The largest falls were in Health & Social Work Activities (which fell from 6.1% to 5%), and in Transportation (falling from 3.8% to 3.1%).

Figure 3.2: Change in industry GVA shares, 2019 to 2023



Source: GLA analysis of ONS regional GVA data
Note: Sectors with GVA share below 0.2% have been omitted from the figure for visual simplification

London's economy is dynamic and its sector shares are likely to continue shifting in the near and medium term. The city's economic structure is being reshaped by technology adoption and deliberate policy focus on high-growth, innovation-led sectors[13]. The dominance of services, especially business and financial services, is likely to remain but the internal composition of these and other sectors will adapt.

London's workforce

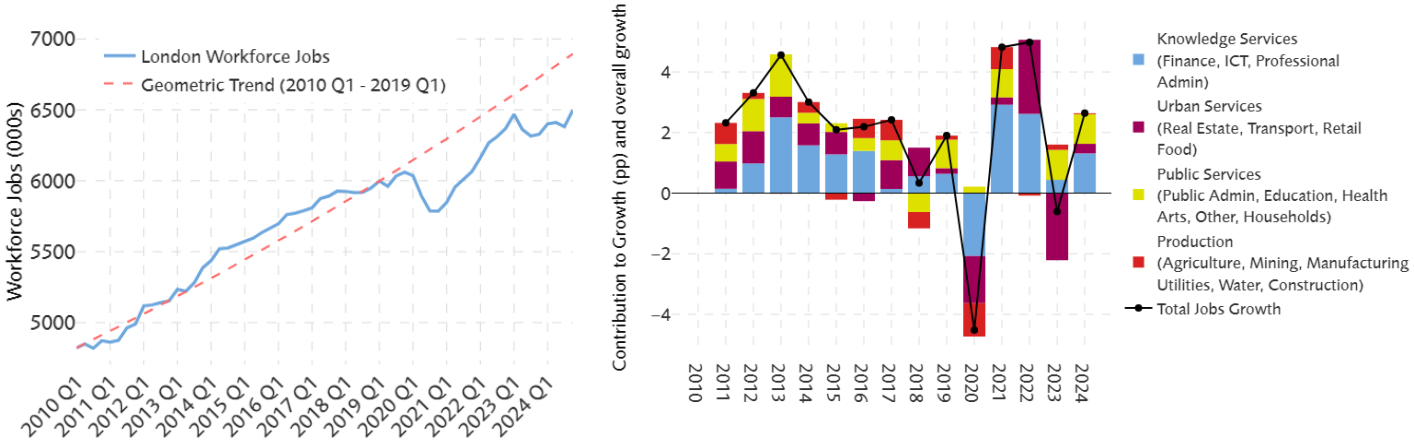
ONS Labour Force Survey data provides the timeliest headline indicators for London's labour market, pointing to a 16+ employment rate of 66% (a 0.3 percentage points (pp) fall on the year) and a 16+ unemployment rate of 6.2% (a substantial rise of 1.6pp on the year) during the first quarter of 2025. This jump in London's unemployment rate is concerning, as it typically fluctuates by only a few tenths of a percentage point year-on-year but it should not be looked at in isolation. The inactivity rate in London (the share of 16–64-year-olds not looking and/or not available to work) in the first quarter of 2025 was 20.7% (a sharp fall of 1.1pp on the year) and lower than the UK rate of 21.4%. Although unemployment has risen sharply, falling inactivity has led to a greater share of Londoners participating in the labour market compared to a year ago i.e., the economic activity rate increased from 69.3% (in the first quarter of 2024) to 70.2% in the first quarter of 2025.

The rest of the chapter will use Workforce Jobs (WFJ) as the primary data source on the labour market, due to (1) the ONS's acknowledged concerns about low Labour Force Survey response rates and data volatility affecting industry breakdowns, and (2) WFJ data being workplace-based, counting jobs within London's economy rather than counting jobs for those living in London.

[13] *London Councils (2025), "London Growth Plan," February 2025*

The latest ONS WFJ data indicates the number of jobs has grown beyond pre-pandemic levels, but the growth rate remains below the pre-pandemic trend (see LHS of Figure 3.3). The number of workforce jobs grew by 2.6% on the year, between 2023 Q4 and 2024 Q4 (see RHS of Figure 3.3). This was driven by broad-based growth across all sectors, with particularly strong growth in jobs in the Knowledge-Intensive Service and Public Service sectors. The increase in public sector jobs is part of a wider UK trend. The ONS recently reported employment in the public sector was estimated at 6.14 million in December 2024, an increase of 53,000 (0.9%) on the year – reflecting the need to address the persistent demands to address healthcare backlogs and public service delivery. London, being a major hub for national public administration, healthcare (major NHS trusts), and education, has seen part of this national recruitment drive[14].

Figure 3.3: WFJ levels (LHS) and year-on-year growth by component (RHS)

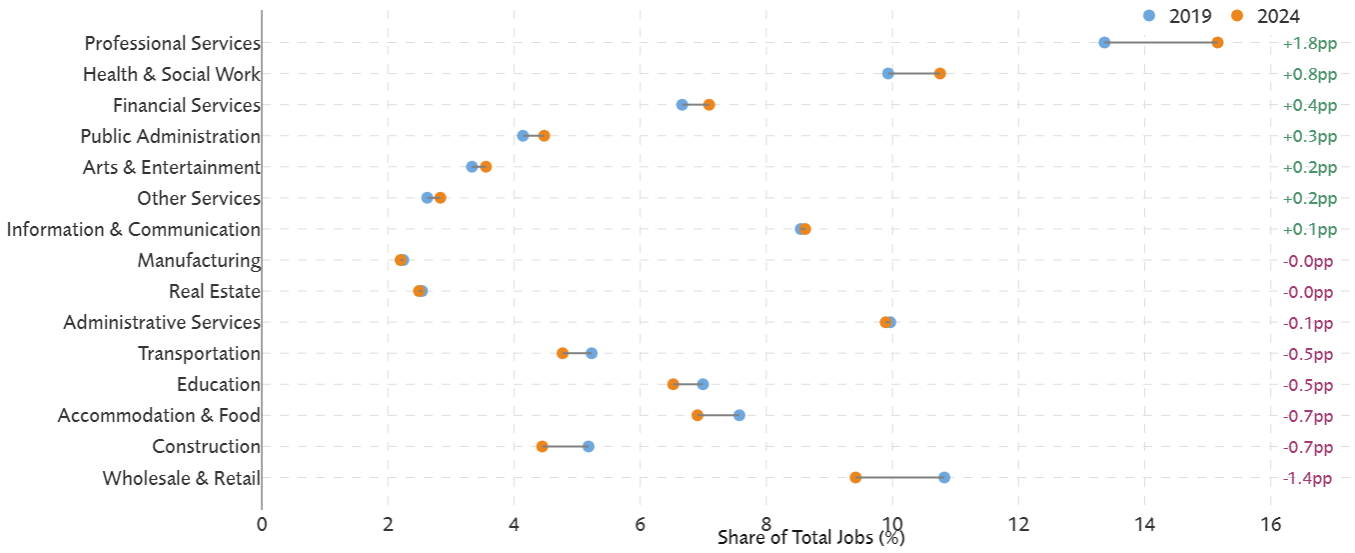


Source: GLA analysis of ONS Workforce Jobs data. Final data point is 2024 Q4

When looking at sectoral changes in workforce jobs, we see similar shifts to those seen in sectoral output shares. Sectors reliant on in-person services have generally shrunk in their shares of London's total workforce jobs, while many service sectors have grown in share (see Figure 3.4). The highest growth in shares of jobs has been in the Professional & Technical Activities sector (which grew from 13.4% to 15.2%) and in the Health & Social Work sector (which grew from 9.9% to 10.8%). The largest falls in shares were in Wholesale & Retail (which fell from 10.8% to 9.4%), Construction (which fell from 5.2% to 4.4%), and Accommodation and Food (which fell from 7.6% to 6.9%).

[14] ONS (2025), Public sector employment (UK), March 2025

Figure 3.4: Change in industry WFJ shares, 2019 q4 to 2024 q4



Source: GLA analysis of ONS Workforce Jobs data
Note: Sectors with WFJ share below 0.2% have been omitted from the figure for visual simplification

Timelier indicators of economic activity

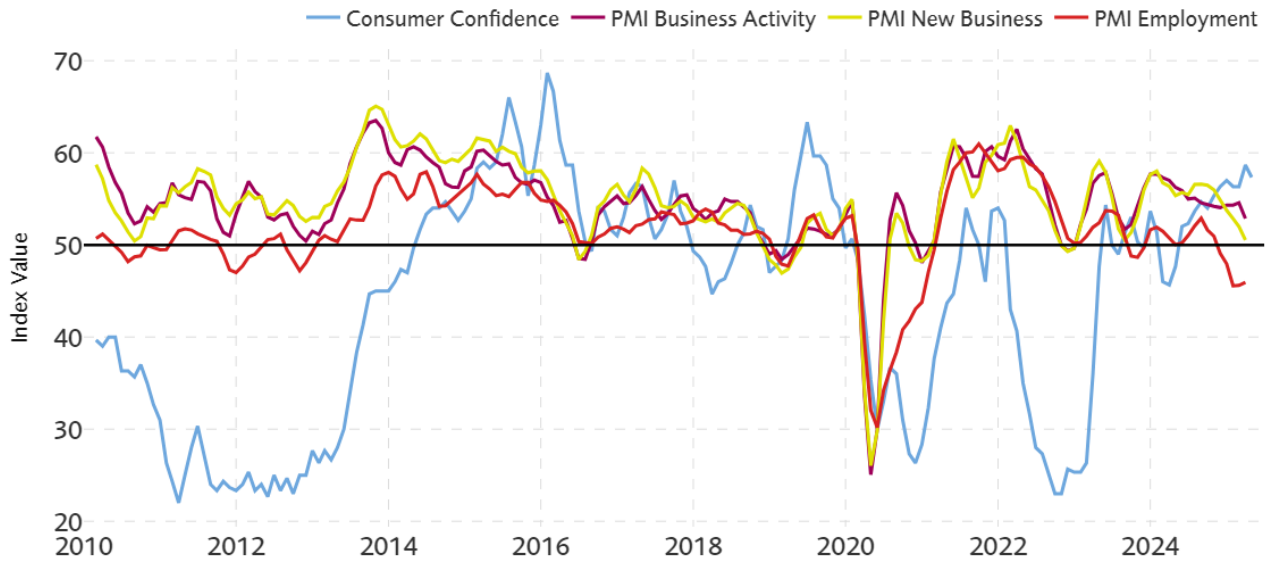
Outside of ONS GVA and workforce jobs figures, we can get timelier indications of London's economic activity from monthly data on consumer confidence, business sentiment, and firm investment and employment activity.

The GfK Consumer Confidence Barometer (a consumer confidence index) is a reliable indicator of how private consumption sentiment in London is affected by uncertainty, changes in policy, and shifts in the macroeconomic landscape. Londoners saw consumer confidence undergo a stop-start recovery during and immediately following the pandemic. Since early 2023, sentiment has been broadly net-positive and since June 2024, confidence has remained positive and has continuously improved (see Figure 3.5 for smoothed 3-month averages)[15].

Another high-frequency indicator that correlates strongly with economic activity is the London Purchasing Managers' Index (PMI) survey, which focuses on the sentiment of businesses in the capital[16]. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators, such as activity, employment, and new business gained. These PMIs fell to all-time lows in March 2020, but recovered by spring 2021 (see Figure 3.5). Looking at 2024, business activity PMIs steadily declined over the year (but remained in "expansion" territory), while the employment PMI fluctuated (again, still remaining in expansion territory) in light of various employment-related policy announcements. The latest (three-month trailing average) data indicates slight downticks in the business activity and new business PMIs (with both still in expansion territory), and a modest uptick in the employment PMI (which remained in contraction territory). Overall this broadly indicates that the current business environment is conducive to growth.

[15] *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. In the base data, a score above zero suggests net positive opinions of survey participants; a score below zero indicates net-negative sentiment.*
[16] *PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading is away from the 50 mark, the faster the rate of growth or decline.*

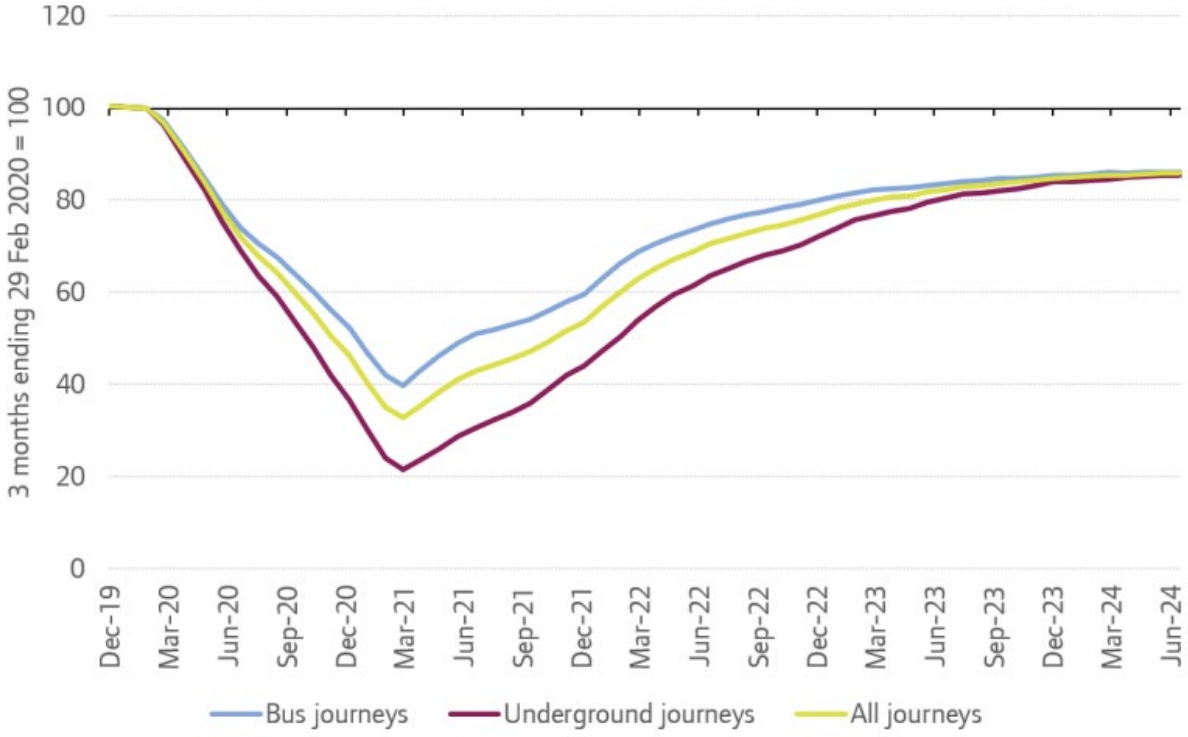
Figure 3.5: High-frequency economic activity indicators (GfK Consumer Confidence Barometer and PMI Business Activity for London, New Business, and Employment Indices)



Source: GLA analysis of GfK-NOP, and HIS Markit PMI data. Last data point is April 2025 for PMI data and May 2025 for GfK-NOP data
Notes: Three-month trailing averages have been used in Figure 3.5, to strip away the volatility and noise associated with consumer/firm sentiment surveys. The latest unsmoothed values (for April 2025) for consumer confidence, business activity, new business, and employment are 53, 49.7, 48.6, and 46.8 respectively. To align this base data with the other high-frequency indicators in Figure 3.5, each data point has been adjusted by 50, i.e., increasing the net-positive floor from 0 to 50.

Weekly public transport usage can also provide a snapshot of activity levels in London. Although this data does not differentiate between work and leisure journeys, both are significant drivers of the city's economic activity. While public transport usage under Transport for London (TfL) grew steadily in 2019, the first pandemic lockdown caused a dramatic collapse in usage. Since then, there has been a solid recovery, with transport use now approaching 90% of pre-pandemic levels as of the second half year of 2024 (Figure 3.6). The lingering gap reflects enduring changes in travel behaviour. The widespread adoption of hybrid working models can be one key reason behind it. These trends have contributed to reduced spending in London's Central Activities Zone, a critical area for the city's economic vitality.

Figure 3.6: Level of public transport passenger journeys in London relative to pre-pandemic



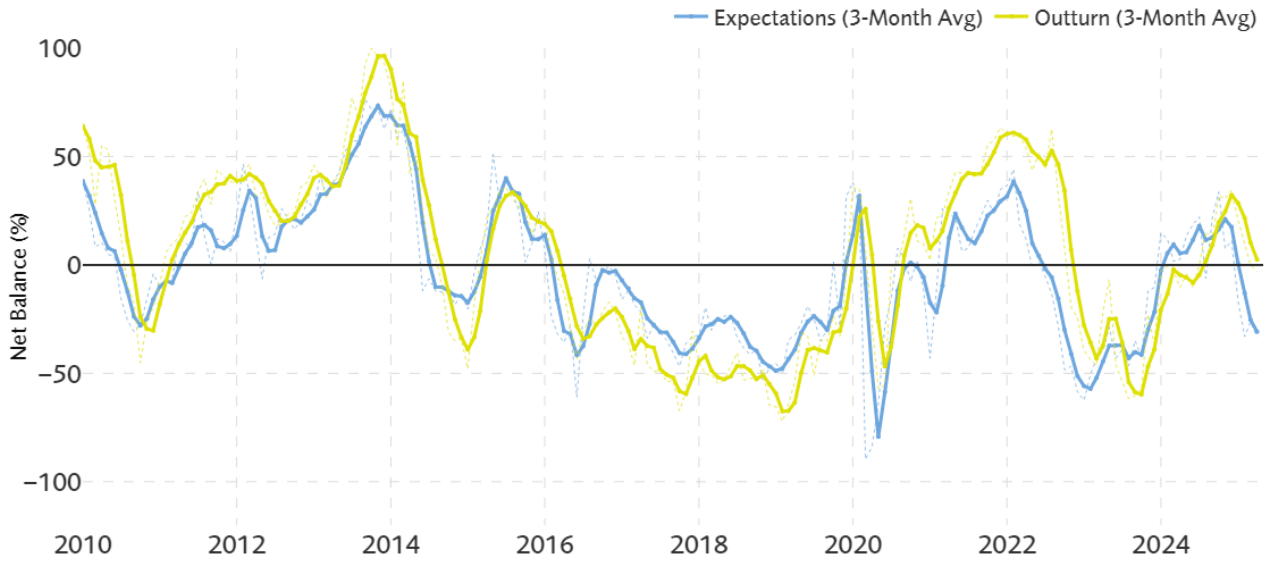
Source: GLA Economics based on Transport for London data. Notes: data is a twelve-month moving average; each series uses the twelve-month moving average at 1 to 29 February 2020 as its index reference. Due to the cyber incident at TfL, the release of passenger journey data has been postponed. Last data point is the 28-day period ending on 20 July 2024.

We can also look at London's housing market for timelier data on economic activity, as property prices are both sensitive to and reflective of shifts in economic conditions (changing interest rates, consumer confidence, credit availability etc) making them valuable early signals of demand pressures and broader economic momentum.

Royal Institution of Chartered Surveyors (RICS) housing price indices measure the proportion of property surveyors reporting a rise in housing prices, against those reporting a decline, i.e., the net sentiment for the direction of prices. This data is split into two closely-aligned measures: an outturn index looking at recent prices (for the previous three months) and an expectations index, looking forward three months.

The pandemic caused a sharp fall into deeply negative territory for both measures in early 2020, followed by an equally sharp and sustained recovery (Figure 3.7). This recovery was followed by the Bank of England's repeated interest rate hikes in late 2022, peaking at 5.25% by August 2023 which fundamentally altered mortgage affordability, the single key driver of house prices. As inflation began to ease and expectations of future rate cuts emerged in early 2024, both indexes rose. As of early 2025, however, future price expectations sit in negative territory, and outturn price sentiment is barely positive – likely reflecting the Bank of England's recent cautious tone regarding rate cuts and persistent, elevated inflation.

Figure 3.7: RICS house prices expectations net balance, expectations (upcoming three months) and outturn (previous three months)



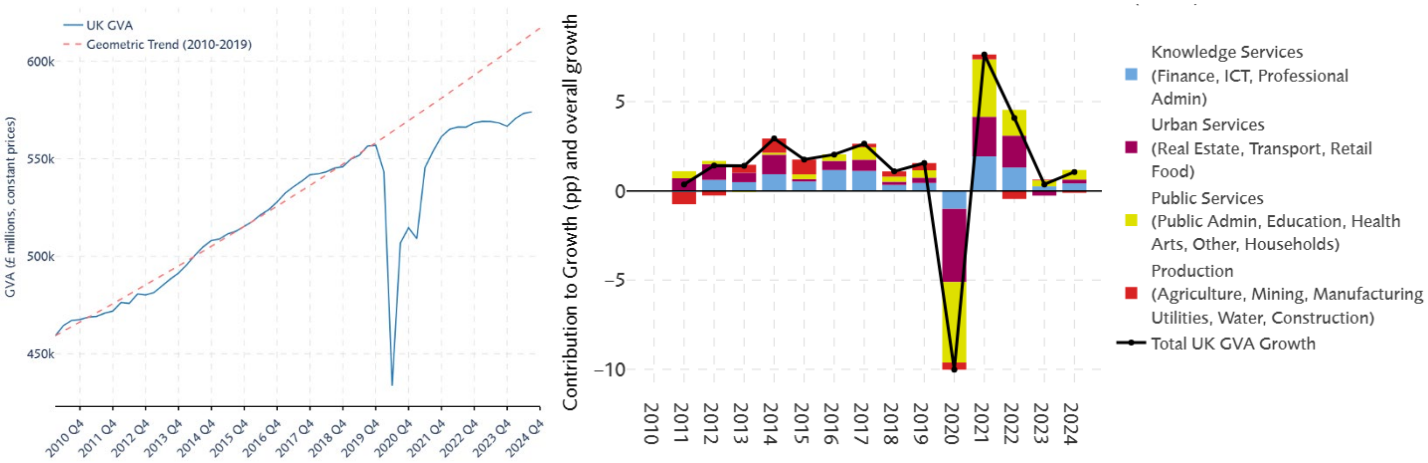
Source: GLA analysis of RICS data. The net balance index measures monthly the proportion of property surveyors reporting a rise in prices minus those reporting a decline in the last three months. Last data point is April 2024.
Note: Three-month trailing averages have been used in figure 3.7, to strip away noise and present structural trends. The latest unsmoothed values (for April 2025) for future expectations and outturn price sentiment are -33.2 and -2.9 respectively.

3.2 The UK economy

UK Output and expenditure

The latest ONS data on UK GVA indicates that output growth remains well below the pre-pandemic (2010-2019) trend but that output is above pre-pandemic levels (see LHS of Figure 3.8). Output grew marginally by 0.3% on the year in 2023 (similarly to growth in London) and 1% on year in 2024 (see RHS of Figure 3.8), driven by growth in the Knowledge-Intensive Service, Public Service, and Urban Service sectors – and contraction in the Production sector.

Figure 3.8: UK real GVA levels (LHS) and year-on-year growth by component (RHS)

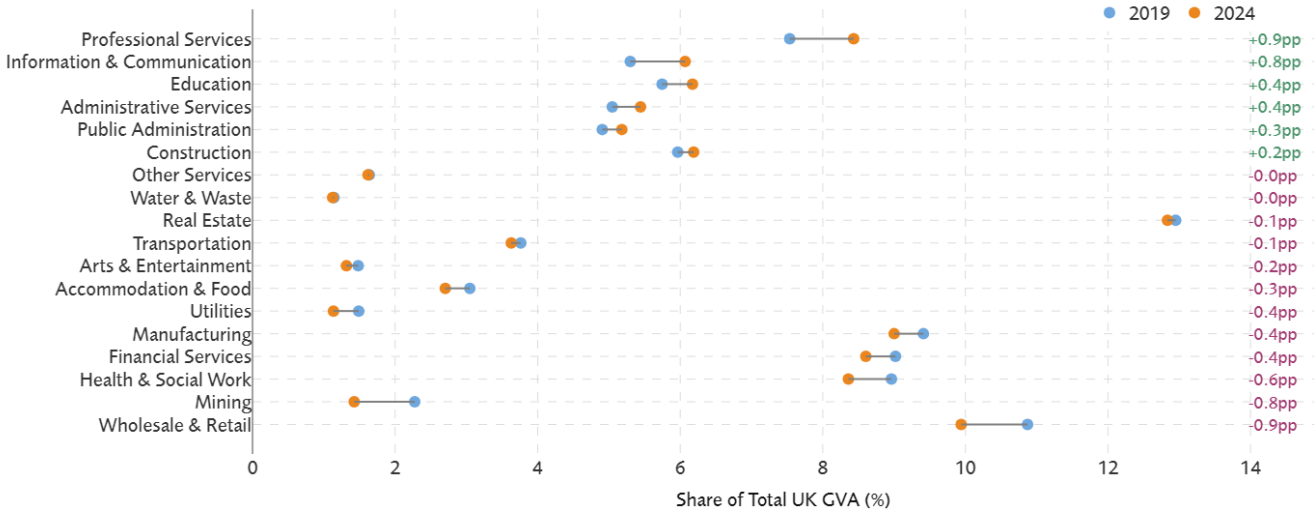


Source: GLA analysis of ONS UK national accounts data

As with London, the wider UK's sectoral distribution of output has seen marked shifts following the pandemic (see Figure 3.9). Sectors reliant on in-person services have generally shrunk in their shares of the UK's total output, while many service sectors have grown in share.

The highest growth in shares of output has been in the Professional Services and Information & Communication Services sectors (which grew from 7.5% in 2019 to 8.4% in 2024 and 5.3% to 6.1% respectively). Shares of output in the Public Sector has also increased, with output in Education and Public Administration growing in share. The largest falls were in Wholesale & Retail (which fell from 10.9% to 9.9% of total UK GVA), Mining (which fell from 2.3% to 1.4%) and Health & Social Work (from 9% to 8.4%).

Figure 3.9: Change in UK industry GVA shares



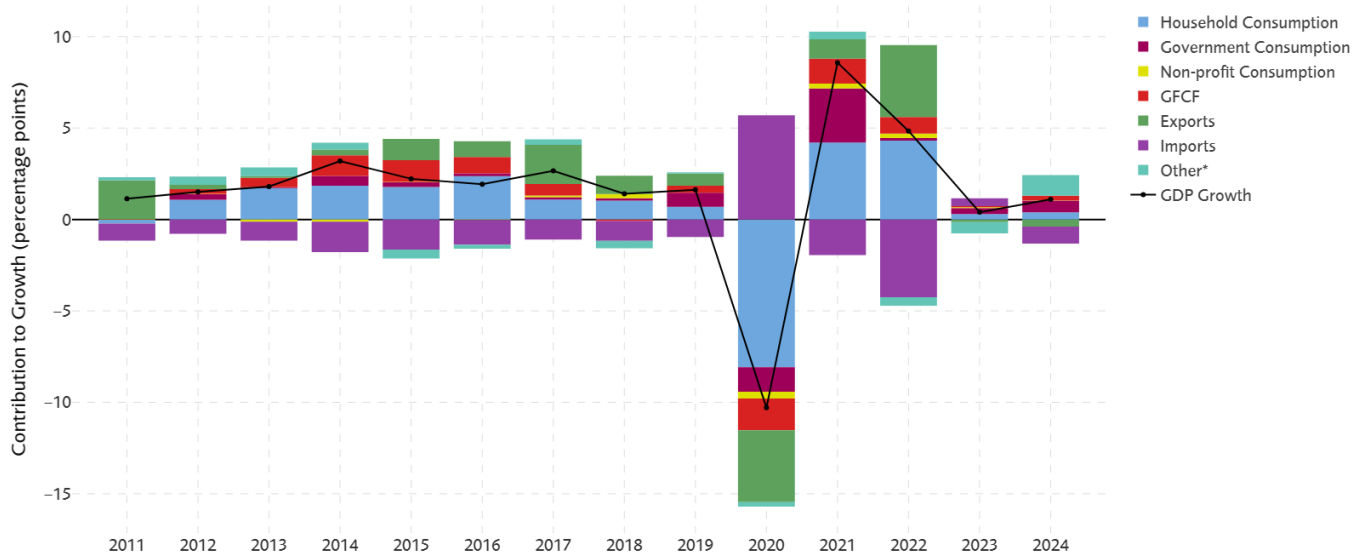
Source: GLA analysis of ONS UK national accounts data

Measuring GVA data is referred to as the "output approach" of measuring GDP, as it looks at the economy as a sum of the value of what is "made"[17]. This data can also be looked at through what is "spent", i.e., the expenditure approach of measuring GDP. When doing so, rather than splitting expenditure by industry, it is often split into households, general government, non-profit institutions, and the expenditure used in gross capital formation (e.g. business investment).

Immediate post-pandemic growth (2020) was broad-based (driven by household, government, non-profit consumption, and gross fixed capital formation) – and this broad-based growth continued into 2022 (see Figure 3.10). The minimal growth in 2023 was also across each expenditure component, and annual GDP growth of 1.1% in 2024 has been primarily driven by government consumption (and slightly less so by household consumption). The latest GDP expenditure data for 2024 contains an "other" expenditure component (expenditure on changes in inventory, acquisitions, statistical discrepancies) far larger than usual. The ONS recently explained this attributing it primarily to changes in inventories, driven by higher stocks of goods in retail and manufacturing[18]. This component will shrink with further ONS revisions, as supplementary data better attributes this expenditure into the appropriate expenditure category. However, policymakers and markets should be cautious about interpreting the entirety of 2024's GDP growth as indicating genuine underlying demand from households, businesses, and international trade, rather than inventory accumulation and statistical adjustments.

[17] ONS (2022), "Gross domestic product (GDP) QMI," Quality and Methodology Information report, April 2022
[18] ONS (2025), "GDP quarterly national accounts, UK: October to December 2024," Statistical Bulletin, March 2025

Figure 3.10: UK real GDP annual growth, by component

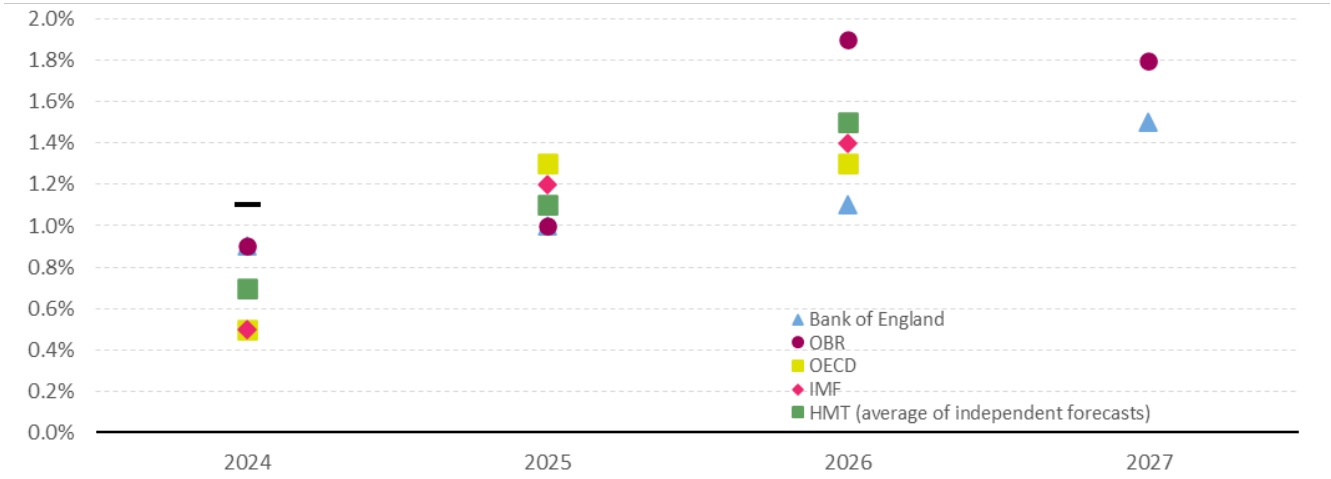


Source: GLA analysis of ONS UK national accounts data
Note: The other component is an aggregation of the contributions of statistical discrepancies, changes in inventory, acquisitions, and expenditure-aligned adjustments. More information can be found in the note sections of ONS expenditure releases

UK forward look

All major forecasters expect UK GDP growth to remain modest but to gradually pick up in 2025 and 2026, with the Office for Budget Responsibility (OBR) notably more optimistic for 2026 and beyond (see Figure 3.11). The consensus forecast range is generally between 1.0–1.3% for 2025 (with the OECD the most optimistic) and 1.1-1.9% for 2026 (with the OBR the most optimistic). The variation between forecasts reflects different assumptions about global conditions, domestic policy, and investment trends.

Figure 3.11: Historic data and external forecasts of UK real GDP growth (and other key macro measures)



Source: ONS (GDP outturn), HM Treasury (average of independent forecasts), Bank of England, OECD, IMF, and OBR projections

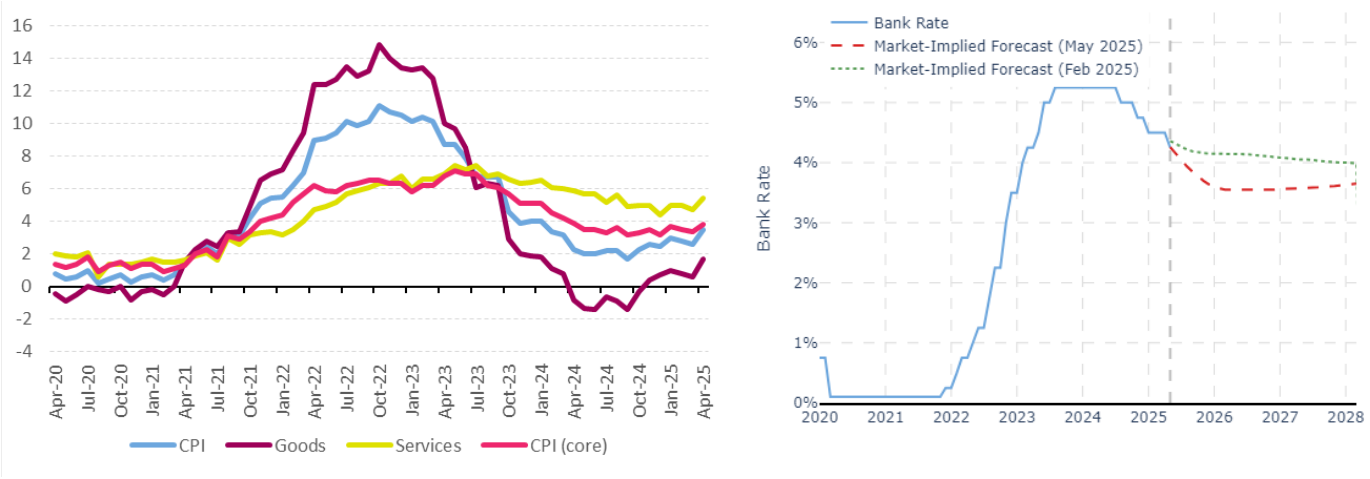
Beyond GDP, inflation figures also serve as another indicator of economic activity, as measured by the Consumer Price Index (CPI) – which although far below recent peaks, remains above recent historical averages since the onset of the pandemic.

CPI spiked immediately following the easing of lockdown measures in early 2021, due to a release of pent-up firm and consumer demand. Global supply and distribution networks were not ready for the surge in

orders, so supply chain bottlenecks began to create shortages that drove up prices. In the UK, the end of the Brexit transition exacerbated this effect. Inflation pushed back above the Bank's target by the end of 2021. Russia's invasion of Ukraine in February 2022 turned the situation into a crisis, with energy and food prices soaring, with CPI inflation peaking at 11.1% year on year in October 2022 (the highest point since 1981). It fell back to the Bank of England's central symmetrical target range of 2% ±1% in April 2024, but rose to 3.5% in April 2025 (see Figure 3.12 LHS). This was driven largely by sharp increases in regulated household bills (especially energy, water, and council tax bills)[19].

In response to inflation falling, the Bank of England has cut interest rates four times since August 2024, reducing the base rate from 5.25% to 4.25% as of May 2025 (see Figure 3.12 RHS). The Bank's current position is cautious, – acknowledging that CPI inflation will be around 3.5% by Q3 2025, driven by higher energy, water, and council tax bills, and then ease back slowly, reaching the 2% target by Q1 2027[20]. The Banks' Monetary Policy Committee has signalled that further cuts are possible if a slowdown in inflation continues, but the timing and scale will depend on how inflation, growth, and global risks (such as US tariffs (see Box 3.1)) evolve.

Figure 3.12: CPI inflation (LHS) and Market-implied interest rate path for the UK (RHS)

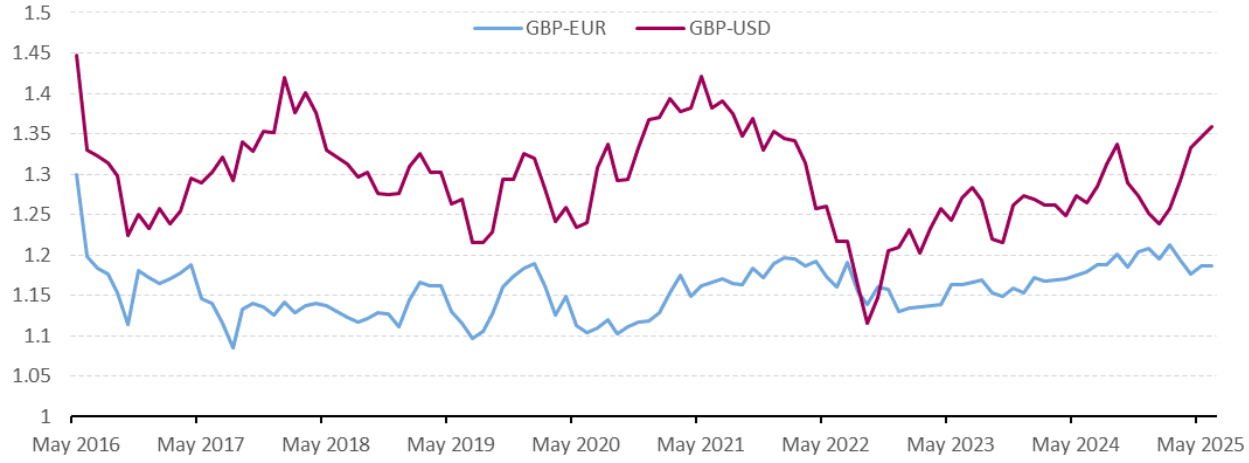


Source: ONS CPI and Bank of England (April 2025 MPR)

Monitoring the GBP-EUR and GBP-USD exchange rates can also provide timely information of economic activity, as currency movements reflect real-time market sentiment about the UK's trade performance, monetary policy and overall economic outlook. Exchange rates also react quickly to new economic data and policy announcements, offering immediate insight. The mini-budget of September 2022 marked a low point for sterling, as unfunded tax cuts and surging government borrowing concerns led to a sharp depreciation, with the pound hitting its lowest level against the dollar since 1984. This triggered a loss of investor confidence in UK government bond markets, further pressuring the currency – but since late 2022, sterling has regained much of its losses, as government policies stabilised and investor confidence improved. As of June 2025, the pound stands at 1.19 EUR and 1.36 US USD (see Figure 3.13).

[19] *Economics Observatory (2025), "Why has UK inflation risen?", May 2025*
[20] *Bank of England (2025), "Monetary Policy Report – May 2025" May 2025*

Figure 3.13: GBP-EUR and GBP-USD exchange rates



Source: Bank of England
Note: Last data point is 1st June 2025

This section on the UK economy has served as a brief overview of its outturn performance and its direction in the near-term, primarily to help frame the outlook for London. For detailed analysis on the UK's economic and policy landscape, the latest OBR EFO (April 2025) and BoE MPR (May 2025) are always very comprehensive reads.

3.3 Global

Global growth is forecasted to slow in the coming years, with the world economy navigating trade tensions, policy uncertainty, and the resulting subdued (and changing patterns of) investment. According to the OECD, global GDP growth is projected to decline from 3.3% in 2024 to 2.9% in both 2025 and 2026, reflecting a broad-based deceleration[21]. The World Bank is more pessimistic, forecasting global growth of just 2.3% in 2025[22]. The latest IMF forecasts are similarly cautious, projecting global GDP growth of 2.8% in 2025 and 3.0% in 2026, citing the negative impact of tariffs and heightened uncertainty as key factors[23].

Looking at the US, the OECD forecasts the **US** economy to slow from growth of 2.8% in 2024 to 1.6% in 2025 (revised down from 2.2% growth) and 1.5% in 2026. Revised figures reflect continuing policy uncertainty, persistently tight monetary policy and elevated trade costs (see Box 3.1 for further detail on how trade barriers impact GDP). European Commission analysis indicates that US tariffs will impact the domestic economy through falling exports and weaker domestic demand, with GDP falling 0.6-1.0% directly due to these effects[24].

The **Eurozone** is projected to experience a gradual recovery from the sluggish economic performance of 2024, with the OECD expecting GDP growth to strengthen from 0.8% last year, to 1.0% in 2025 and 1.2% in 2026[13]. The European Central Bank (ECB) is slightly more pessimistic, projecting Eurozone GDP growth at 0.9% in 2025, 1.1% in 2026, and 1.3% in 2027, reflecting trade policy uncertainty[25]. The ECB has been supporting the recovery through loosening monetary policy, having delivered its eighth consecutive rate cut in June 2025 (down to 2%), but the modest acceleration in growth is constrained by recent instability (i.e.,

[21] *OECD (2025), "OECD Economic Outlook, Volume 2025 Issue 1," Organisation for Economic Co-operation and Development, June 2025*
[22] *World Bank (2025), "Global Economic Prospects, June 2025: Press Release", June 2025*
[23] *IMF (2025), "World Economic Outlook: A Critical Juncture amid Policy Shifts", April 2025*
[24] *European Commission (2025), "Macroeconomic effect of US tariff hikes," Spring 2025 Economic Forecast, May 2025*
[25] *European Central Bank (2025), "Monetary policy decisions," ECB Press Release, June 2025*

US trade policy and geopolitical conflicts) and long-standing, structural issues (demographic pressures, fiscal constraints, and productivity challenges)[26].

China's economy is forecast to slow, with the OECD forecasting 4.7% growth in 2025 (down from 5.0% in 2024) and 4.3% in 2026. The OECD has downgraded its 2026 growth projection, citing reduced exports from newly imposed tariffs and domestic consumption dampened by ongoing structural challenges, namely demographic pressures and the recent collapse of the property market[27]. The property sector correction represents one of the most severe economic adjustments in China's modern history. Real estate investment and property prices have plummeted, wiping roughly £14 trillion from Chinese household wealth – more lost wealth than American households during the global financial crisis[28]. This, coupled with demographic pressure (roughly 300 million people currently aged 50-60 are set to leave the workforce over the next decade) will lead to elevated precautionary savings and constrain domestic consumption – precisely as the Chinese economy shifts away from investment-led growth[29].

India continues to defy the global slowdown, with the OECD projecting GDP growth of 6.3% in 2025 and 6.4% in 2026, making it the fastest-growing major economy worldwide. IMF forecasts are similarly optimistic, expecting growth of 6.5% for 2025. Both organisations cite robust domestic demand and ongoing infrastructure investment as key drivers. However, external global risks have led to recent downward revisions, with the World Bank noting that investment growth is expected to slow, reflecting heightened global policy uncertainty – and the OECD warning that India's high exposure to US trade policy leaves export-oriented sectors vulnerable to further tariff shocks.

In short, geopolitical and economic risks persist across the major economies. The global trading environment has deteriorated sharply, with new US tariffs and retaliatory measures by major partners raising costs and uncertainty. This has already led to a marked slowdown in global trade growth and investment, with the OECD and World Bank both highlighting the drag from protectionism and supply chain fragmentation. Inflationary pressures have resurfaced in some economies, driven by higher trade costs and wage growth and as a result, most central banks are expected to slow monetary policy loosening. The world economy is navigating a period of subdued growth, with advanced and emerging economies alike facing structural and cyclical challenges.

Box 3.1: Free trade and tariffs

1.Introduction
In 2025, a single presidential announcement reignited fears of global trade wars, sending financial markets into immediate turmoil. Tariffs had once again returned to the heart of international economic policy. This box explores tariffs, their historical roots, contemporary resurgence, political implications, and the economic ripple effects that span global markets.

President Trump campaigned heavily on reintroducing tariffs, and on taking office, delivered on this promise with a series of announcements leading up to so called "Liberation Day". Since then, tariffs have regained prominence in international economic policy. The dramatic escalation on June 3, 2025, when duties on imported steel and aluminium surged from 25% to 50% under the justification of national security, underscores the renewed significance of tariffs as a powerful economic and geopolitical tool.

[26] *ECFR (2025), "Markets, migrants, microchips: European power in a world of demographic change", June 2025; CEPR (2025), "Geopolitical risks and the effectiveness of EU cohesion policy", May 2025*
[27] *OECD (2025), "OECD Economic Outlook, Volume 2025 Issue 1 – China," June 2025*
[28] *Bloomberg (2025), "China's Real Estate Crisis Is Getting Worse," February 2025*
[29] *Carnegie Endowment (2024), "The Impact of Household Consumption Growth on China's GDP Growth," December 2024*

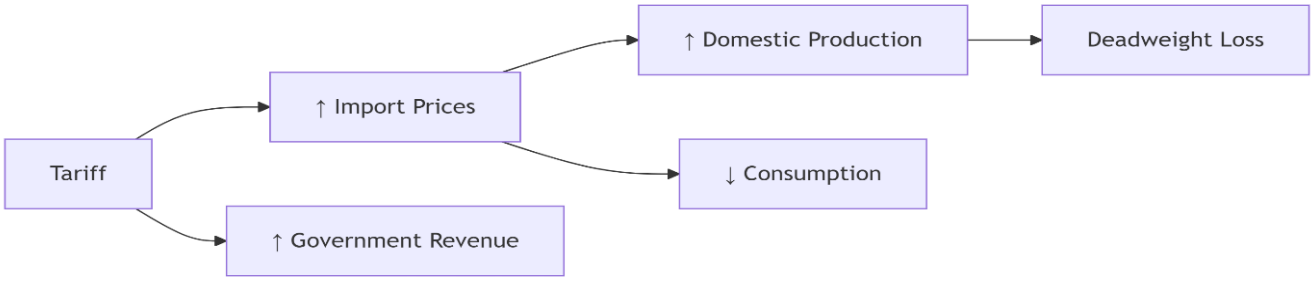
2. Tariff theory, application, and history

Free trade theory, rooted in Adam Smith's absolute advantage and Ricardo's comparative advantage, holds that countries benefit by specialising in goods they produce most efficiently[30]. However, the theory assumes static technology, largely immobile labour and capital, and balanced trade – conditions rarely met today. It overlooks political, strategic, and environmental factors, as well as adjustment costs like worker displacement. Critics such as Ha-Joon Chang argue for temporary protection and "infant industry" policies to foster development[31]. Modern challenges, including supply chain vulnerabilities and strategic competition, further complicate the assumptions behind free trade.

Tariffs[32] are taxes on imported goods – usually a percentage of their value, and were historically a key government revenue source. Today, they mainly protect domestic industries and address trade imbalances. Economically, tariffs balance protectionism and free trade: they shield local businesses but raise costs for consumers and disrupt supply chains, risking trade conflicts. Politically, tariffs act as bargaining tools, exemplified by the Reagan administration's 100% tariffs on Japanese electronics, to influence semiconductor trade[33]. Mechanically, tariffs raise a product's cost relative to domestic products, thereby giving local producers a competitive advantage. Though formally paid by importers, the cost burden typically passes to consumers via higher prices, distorting economic behaviour.

Tariffs take two main forms: (1) **specific tariffs**, which are fixed amounts per unit imported, and (2) **ad valorem tariffs**, which are percentages of the import's value.

Figure 3.14: The impact of tariffs



As Figure 3.14[34] shows, tariffs increase import prices, which in turn affect market behaviour in several keyways:

- They encourage domestic production by giving local firms a price advantage.
- They reduce overall consumption due to higher prices.
- They generate government revenue through tariff collections.
- They create **deadweight loss**[35], the net loss to societal welfare (the additional cost) as consumers pay more and resources are allocated less efficiently (above the true price).

Despite creating this deadweight loss (reducing economic efficiency), tariffs are enacted and defended for specific objectives: (1) protecting jobs in vulnerable industries, though potentially delaying restructuring, (2)

[30] McDonald, B. (2009). 'Back to Basics: Why Countries Trade', IMF - Finance & Development, Vol. 46, No. 4, December 2009.
[31] Interview with Ha-Joon Chang September 2009 International Economic Law and Policy Blog.
[32] Unlike tariffs, which are direct taxes on imports, non-tariff barriers (NTBs) are regulatory measures—such as quotas, licensing rules, or technical standards—that restrict trade without imposing a tax. Though less visible, NTBs can be just as restrictive as tariff.
[33] https://www.reaganlibrary.gov/archives/speech/memorandum-tariff-increases-japanese-semiconductor-products
[34] Krugman, P. R., Obstfeld, M., & Melitz, M. J. (2023). 'International Economics: Theory and Policy, Global Edition, 12th Edition', 2023.
[35] Deadweight loss refers to the economic inefficiency that occurs when market equilibrium is distorted, such as through taxation or price controls. In the case of tariffs, it reflects lost welfare from reduced consumption and misallocated production resources, where the cost to consumers exceeds the gains to producers and government.

safeguarding national security-critical sectors, (3) enabling infant industries to achieve competitiveness through temporary protection, and (4) serving as bargaining leverage in negotiations.

As a global trend, trade liberalisation has progressed steadily over the last century, peaking in the 1990s–2000s[36] – and has significantly contributed to alleviating poverty in Asia and Latin America, but has also exacerbated job displacement in developed economies. Throughout this century, however, countries have occasionally resorted to tariffs to address various perceived economic issues and geopolitical pressures[37]. Recent shocks such as the 2008-09 global financial crisis (GFC) and COVID-19 have exposed the fragility of global trade networks, with trade volumes dropping 12% during the GFC, and a sharp but brief 11% decline followed by a rapid rebound during the pandemic[38]. These disruptions, while not caused by tariffs, underscore the vulnerabilities of interconnected supply chains developed through decades of trade liberalisation and tariff reductions. The GFC also marked a turning point in public attitudes to trade and globalisation – with high-profile critics such as Trump's current senior counsellor for trade and manufacturing, Peter Navarro, warning that broad trade agreements like the Trans-Pacific Partnership (TPP) would harm domestic industries. This rhetoric has resonated with voters and legitimised a shift toward protectionism.

3. Trump's Tariff Policies

Donald Trump's trade policy finds its ideological roots in the economic anxieties of the 1980s. This was a decade marked by the perceived threat of Japan's industrial rise, declining visibility of US manufacturing, and the emergence of economic nationalism as a counter-current to globalisation. Trump held these views long before his political career, criticising what he saw as one-sided trade relationships in a 1987 interview on Larry King Live and arguing that "countries must pay their fair share" on *the Oprah Winfrey Show* later that year[39]. This view ran counter to the "Washington Consensus," which promoted free markets, open trade, and multilateral institutions (WTO, IMF, and World Bank). Trump advanced an "America First" ideology that reframed trade as a zero-sum game - where trade deficits equalled loss, and offshoring of jobs was framed as national betrayal.

Trump's first term: During his first term (2017-2021), Trump operationalised his views through a series of tariffs targeting key trade partners, particularly China. The administration sparked a protracted trade war by imposing (1) a 25% tariff on steel and aluminium, (2) duties on imported cars and car parts, and (3) tariffs on over $350 billion of Chinese goods. The stated policy goals were threefold: reduce the trade deficit, restore manufacturing jobs, and curb China's economic ascent. Economic outcomes were decidedly mixed, with significant costs outweighing limited benefits[40] – but the current US administration has argued otherwise[41]. Certain import-competing sectors did see temporary gains, but sectors reliant on global inputs faced higher costs – and retaliatory tariffs from China and others hurt US farmers, exporters and workers – leading to a net loss of approximately 245,000 jobs[42]. The tariffs also failed to "fix" the structural causes of the trade deficit, which are rooted in high US consumption and low savings – macroeconomic dynamics that tariffs alone cannot fix[43].

[36] IMF (2006). 'World Economic Outlook, September 2006: Financial Systems and Economic Cycles', April 2006.
[37] Baltussen, G., Dekker, J., Hunstad, M., van Vliet, B., & Vidojevic, M. (2025). 'Tariffs and Returns: Lessons from 150 Years of Market History', May 2025.
[38] WTO (2009). 'World Trade Report 2009', 2009.
[39] Zarroli, J. (2018). 'Looking Back: Trump Has Been A Hard-Liner On Trade For A Long Time', NPR 23 August 2018.
[40] Amiti, M., Redding, S. J., & Weinstein, D. E. (2019). 'The Impact of the 2018 Tariffs on Prices and Welfare', Princeton Economics Working Paper, June 2019. ; The US-China Business Council (2021). 'The US-China Economic Relationship', January 2021.
[41] The White House (2025). 'Tariffs Work — and President Trump's First Term Proves It', April 2025.
[42] Gertz, G. (2020). 'Did Trump's tariffs benefit American workers and national security?', Brookings, September 2020.
[43] Trade deficit: Rose 18% (2016–2020) due to persistent consumption/savings imbalances (Peterson Institute)).

Trump's Second-Term Escalation (2025): Trump's second term marked a significant escalation. By April 2025, a universal 10% tariff was imposed on imports from 185 countries, with more aggressive measures to follow[44]:

- 25% tariffs on steel, aluminium, and automotive products.
- 145% tariffs on Chinese goods, marking the most extreme tariff rate in modern US history[45].
- Removal of the de minimis exemption, subjecting even small online purchases to full duties.
- Port fees of up to $1 million on Chinese-built vessels, with additional levies based on fleet origin.
- Secondary sanctions targeting countries trading with Venezuela.

These steps signalled a shift from targeted pressure to blanket protectionism, extending even to traditional allies and neutral states. By mid-April 2025, the administration began scaling back some of its measures. A 90-day pause was applied to most tariffs (excluding China), and smartphones, computers, and other high-value electronics were exempted. Port fee implementation was delayed and softened. This change in policy was driven by coordinated international resistance and domestic pressures, catalysed by the following:

- **Supply Chain Realities**: Products like the iPhone, with components sourced from over 40 countries, underscored the impracticality of decoupling from China[46]. Similar dependencies exist in sectors like electric vehicles and medical devices.
- **Reshoring Limitations**: Decades of offshoring had eroded the US's capacity to rapidly rebuild manufacturing. Infrastructure gaps, a shortage of skilled labour, and long investment timelines further constrained options[47].
- **Bond Market Leverage**: Canada, Japan, and the EU coordinated pressure by threatening to offload US Treasury holdings, a critical financing source for the US's $36 trillion debt. Canada alone held $426.2 billion[48]. The threat of a coordinated bond sell-off destabilised yields and triggered alarm within US financial institutions. As Bill Clinton's chief strategist James Carville once said, "Never mess with the bond market[49]."

4: Impact on London's Economy

The focus of Trump's tariff agenda is primarily on goods, while 93% of London's output comes from services, but the effects of the tariffs extend far beyond their direct impact. In London's case, a city deeply embedded in global capital, services, and supply chains, the indirect repercussions of the tariff regime are already being felt. It's important to remember that over 143,000 manufacturing-related jobs in London could also be directly and indirectly affected through disrupted supply chains due to tariffs. These tariffs thus have a number of routes to impact London including:

- US tariffs will reduce world income and thus reduce demand for goods and services from other countries. With London being more open than the UK as a whole to world trade this would imply that London's more export-oriented economy faces a larger exposure to this income shock;
- As noted, although manufacturing is a small part of London's economy, due to the integrated nature of supply chains, tariffs which negatively affect manufacturers in for example the North of England could still negatively impact London firms that provide either goods or services to these firms;
- The US may impose its own digital service tax which would negatively impact London-based digital service providers;

[44] Tariff information reflects the latest available data as of 1 May 2025
[45] Bown, C. P. (2025). 'Trump's trade war timeline 2.0: An up-to-date guide', Peterson Institute for International Economics, June 2025.
[46] Apple (2025). 'Annual Progress Report: People and Environment in Our Supply Chain', 2025.
[47] Semiconductor Industry Association (2024). '2024 State of the U.S. Semiconductor Industry' 2024.
[48] https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html
[49] Kelly, R. (2022). 'Beware the bond markets', Policy Exchange, October 2022.

- London may be hit by the ending of the "de minimis" exception. For example, retailers, especially those reliant on Chinese manufacturing like major fashion brands, face increased tariffs with the end of exemptions, posing risks to London's retail sector;
- London is a key intermediary in global financial flows, and changes in global financial flows due to these tariffs thus has implications for firms involved in those flows;
- The imposition of the tariffs have already seen financial market volatility, and this increases the risks for some exposed firms;
- With 60% of global shipping relying on Chinese vessels, rising duties here could slow global trade growth, affecting London indirectly.

5: Conclusion
For a globally integrated economy like London's, tariffs are no longer a distant threat – they represent a pressing strategic challenge (and *some* opportunity). London's deep reliance on international markets, intricate supply chains, and imported inputs makes it acutely vulnerable to tariff shocks. This uncertainty and disruption can ripple through the city's financial and professional services and technology sectors – raising input costs, complicating business planning, and potentially reducing competitiveness. Policy makers in central and local government must remain well abreast on developments and where possible, adopt proactive strategies to mitigate potential risks.

3.4 Risks to London's economy

London has come through the pandemic and weathered the worst of the cost-of-living crisis. Although output growth in 2023 was minimal, growth in 2024 and into the medium-term is expected to be stronger. However, London's economy continues to face structural challenges, including (1) high housing costs and associated productivity impacts, (2) infrastructure capacity bottlenecks, and (3) fiscal pressures weighing on London's economic potential. This section examines these three issues, their transmission mechanisms, and how they impact the capital's macroeconomic stability and growth trajectory.

Housing affordability and productivity implications

London's housing affordability problem represents a significant structural barrier to long-term economic growth. Between 2002 and 2021, median house prices grew twice as fast as wages in London, with housing affordability (median house price over median wage) rising significantly[50]. The impacts of this are sweeping, constraining Londoners' discretionary spending and increasing their financial vulnerability.

Recent econometric analysis (supporting consensus thinking) by GLAE found that declining housing affordability has had a strong, negative effect on London's economic productivity through multiple channels. High housing costs constrain labour mobility, contributing to London's relative decline in attracting and retaining talent domestically and internationally[51]. Elevated commercial property costs are also increasingly crowding out investment in productivity-enhancing investment, with a wide body of research indicating that property costs are taking an ever-larger share of output in London precisely when investment in productivity-driving 'intangible' assets has stagnated. For London, this matters more than in other regions, as the capital's economic advantage traditionally derives from agglomeration benefits. With ever-rising rents and elevated mortgage rates reducing household affordability and constraining consumer spending, and businesses facing higher property costs, the housing crisis threatens London's competitive position as a global city.

[50] *GLA (2024), "Housing and Productivity in London," September 2024*
[51] *Centre for Cities (2023), "Potential urban drivers behind London's productivity slowdown," December 2023*

Infrastructure capacity constraints

London's infrastructure faces severe capacity constraints, that continue to limit growth. Drivers in London spend more time stuck in traffic than in any other city globally, while many parts of the tube and rail network suffer significant crowding during peak periods[52]. Energy supply pressures compound these challenges. The National Energy System Operator (NESO) projects that UK electricity demand could rise by approximately 11% by 2030, driven in part by a substantial increase in data centre electricity demand[53]. This increase will be particularly pronounced in London given the capital's concentration of data centres and digital infrastructure. Pressures are already materialising in West London, where electricity capacity limitations have created a development crisis. As of 2025, data centre connection requests in parts of West London alone require the additional capacity of adding a mid-sized city to London's grid.

These infrastructure bottlenecks create direct productivity drags through increased transport costs, input costs, and time losses while constraining the capital's ability to accommodate new firms and future growth. Labour market inefficiencies intensify, and agglomeration benefits (the productivity gains from clustering that historically drove London's competitive advantage) are eroded. When congestion costs (both in terms of time and money) and input costs exceed agglomeration benefits, London's competitive edge is undermined.

Fiscal Pressures and Public Finances

The National Institute of Economic and Social Research (NIESR) forecasts the government will miss its fiscal rules, with a potential £62.9 billion shortfall by 2029/30, creating a fiscal gap that will require further spending cuts or tax increases. The OBR highlights significant pressures on "unprotected" departmental spending.

Analysis at the time of the 2025 Budget suggested, unprotected departments could face real-terms cuts worth nearly £5 billion by the end of the Parliament[54]. While the 2025 Spending Review[55] did indicate a real term increase in departmental spending of 2-3% over the course of the Parliament this varies widely between departments with some seeing real term cuts.

As discussed earlier, London's growth depends heavily on sustained investment in transport networks and public services, making it particularly vulnerable to spending constraints in "unprotected" departments. Transport for London (TfL) funding demonstrates these pressures, having missed out on funding during the Spring Statement while submitting business cases for long-term funding deals for projects including upgrading the Bakerloo Line and the London Orbital[56]. TfL have only just secured the multi-year funding arrangement (at the June 2025 Spending Review) which is crucial for necessary upgrades. The contrast with regional transport investment is stark: £15 billion has been earmarked for public transport projects outside London, including £2.5 billion for Greater Manchester's tram expansion and £2.4 billion for West Midlands services. This disparity in infrastructure investment threatens London's competitive position, particularly given that the capital's economic advantage traditionally derives from discussed agglomeration benefits requiring sustained transport connectivity.

3.5 Conclusion

Following a bleak 2023 (a mild contraction in workforce jobs and minimal GDP growth), 2024 proved a better year for growth. The number of Workforce jobs rose, driven by growth in high-productivity sectors,

[52] *London Councils (2024), "London Infrastructure Framework 1," June 2024*
[53] *NESO (2024), "Our Clean Power 2030 advice to Government," November 2024*
[54] *Civil Service World (2025), "Spring Budget: Unprotected departments face cuts of up to 35%," March 2025*
[55] HM Treasury (2025). 'Spending Review 2025', 12 June 2025.
[56] *City A.M. (2024), "Spending Review: Biggest winners and losers in transport and infrastructure," November 2024*

and timelier data on UK output and business activity in the capital points to meaningful output growth for 2024.

Despite the combination of housing pressures (and its consumer spending and productivity impacts), potential fiscal constraints, and infrastructure underinvestment raising concerns for the capital's medium-term outlook, there is cause for optimism. London's service-led economy provides structural advantages to capturing the inevitable growth in service sectors that benefit from developments in AI, with job vacancies in the fintech sector surging 44% in 2024[57]. London's firms remain optimistic, with 84% expecting profitability increases in 2025, and 81% expecting turnover to increase in the year ahead[58]. Business confidence remains high, and significantly above the UK's and London's firms report the strongest annual profit growth among regions – resulting in firms planning more R&D and capital investment than any other UK region[59]. The UK is also expected to extend its lead as the second largest services exporter in the world, with services exports projected to surpass £500 billion in 2025, equivalent to around one-fifth of the UK's GDP[60]. This optimism should, however, sit closely with a little caution. Recent growth may reflect temporary factors, and the broader economic environment is still subject to ongoing uncertainty, volatile inflation trends, tight monetary policy, and ongoing trade frictions.

Considering all of these elements, GLA Economics provides its medium-term scenario-based forecasts for London's economy in Chapter 5 of this document.

[57] *Crowdfund Insider (2025), "UK Fintech Jobs Report: 44% Rise In Financial Tech Job Openings In 2024," February 2025*
[58] *London Post (2024), "London firms' growth expectations merry and bright for 2025," December 2024*
[59] *ICAEW (2025), "London Business Confidence Monitor," June 2025*
[60] *PwC (2025), "Predictions for the UK Economy 2025," January 2025*

4. Review of independent forecasts

GLA Economics forecasts four economic indicators: workforce jobs, real GVA, private consumption (household expenditure) and household income in London. This chapter summarises the consensus view as of **13 June 2025** on these indicators[61], drawing on forecasts from outside (independent) organisations[62]. Chapter 5 then provides a summary of GLA Economics' own projections.

All the external forecasts were produced over the period December to June. Both annual growth rates and 'standardised' absolute levels are reported. All money-valued data is in real terms (constant 2022 prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling using ONS data[63]. The source of historical data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for the absolute levels. Beyond the headline, both the external consensus and GLA Economics deliver forecasts for employment and output growth in six broad sectors[64]:

- Manufacturing
- Construction
- Transport and storage
- Distribution[65], accommodation and food services
- Finance and business services[66]
- Other (public & private) services[67].

[61] The consensus forecast for GVA and employment is based on the latest available forecast from the Centre for Economics and Business Research, Experian Economics, Oxford Economics and S&P Global.
[62] S&P Global does not provide household expenditure forecasts.
[63] The main underlying ONS sources for output are the Quarterly country and regional GDP series and the Regional gross value added (balanced) by industry: all ITL regions series, and the main underlying ONS source for employment is Workforce jobs by region and industry.
[64] Since our Spring 2012 forecast, GLA Economics has been using the 2007 Standard Industrial Classification (SIC 2007). For more information see Appendix A of 'London's Economic Outlook: Spring 2012', GLA Economics, June 2012.
[65] Distribution is made from the summation of Wholesale and Retail.
[66] Business services is made from the summation of Information and Communication, Professional, Scientific and technical services, Real estate, and Administrative and support service activities.
[67] This is the sum of Public admin and defense, Education, Health, Arts, entertainment and recreation and Other services. While this set of sectors neglects primary industry and utilities, these made up 1% of London's 2022 output.

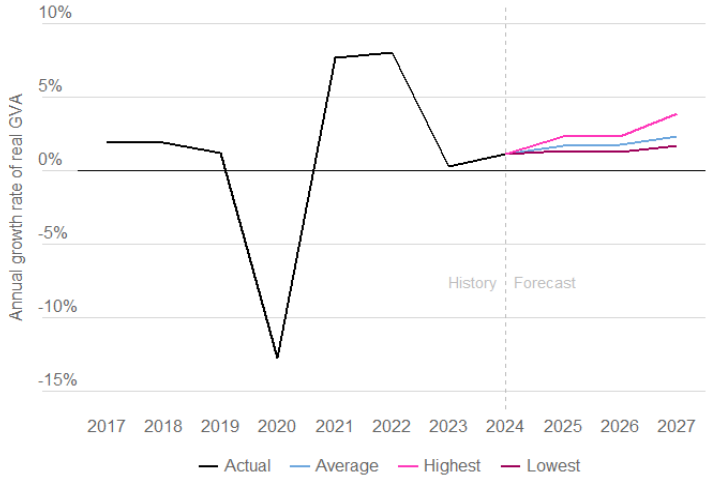
Output

(London GVA, constant prices (base year 2022), £ billion)

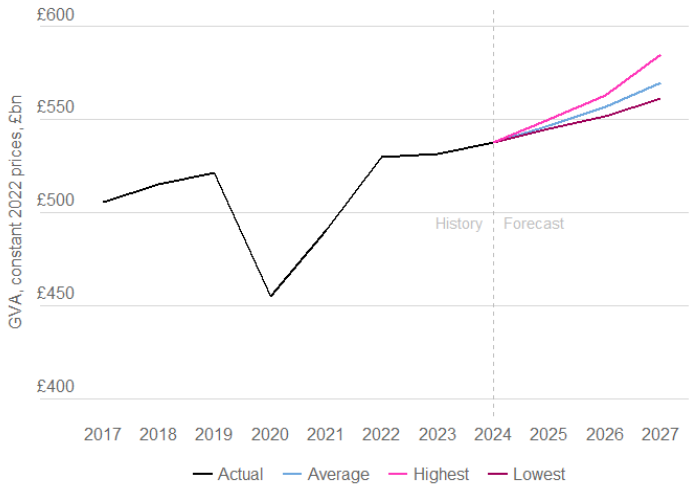
The consensus forecast puts real output growth at 1.7% in 2025, 1.8% in 2026, and 2.3% in 2027. Compared to the December 2024 LEO consensus, the 2025 growth rate has been slightly revised down from 1.9% to 1.7%, reflecting updated economic data. The range of estimates for 2025 in the June forecast spans from 1.3% to 2.4%, slightly wider than the December 2024 forecast range of 1.6% to 2.2%.

The range of growth estimates narrows to 1.0 percentage point in 2026 but widens again in 2027, reaching 2.2 percentage points between the highest and lowest forecasts. By 2027, the highest-growth profile projects London's economy to be 3.9% larger than the consensus path, while the lowest-growth profile projects it to be 1.7% smaller, resulting in a gap of approximately 5.6% in output levels between these scenarios.

Annual growth



Level (constant year 2022, £ billion)



Annual growth (%)			
	2025	2026	2027
Average	1.7	1.8	2.3
Lowest	1.3	1.3	1.7
Highest	2.4	2.3	3.9

Level (constant 2022 prices, £ billion)			
	2025	2026	2027
Average	546.8	556.7	569.8
Lowest	544.8	551.7	561.0
Highest	550.2	562.9	585.0

History: Annual growth (%)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1.3	4.2	1.9	1.9	1.2	-12.7	7.7	8.1	0.3	1.1

History: Level (constant 2022 prices, £ billion)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
476.1	495.9	505.3	515.1	521.5	455.1	490.3	529.8	531.5	537.6

Employment

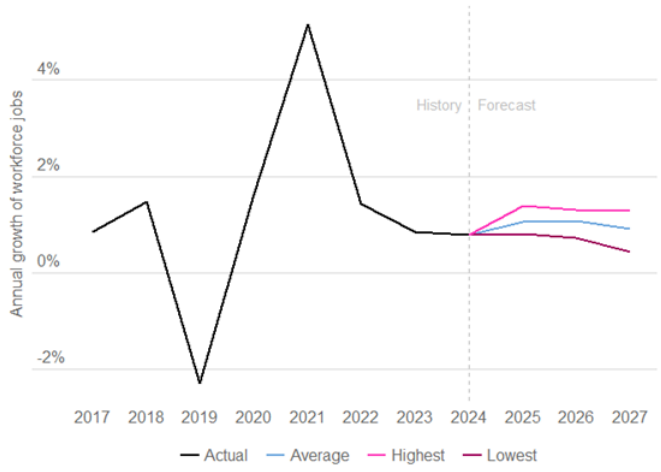
(London workforce jobs)

The consensus forecast for workforce jobs anticipates growth of 1.1% in 2025, followed by 1.1% in 2026 and 0.9% in 2027. This reflects an improved performance for 2024 growth at 0.8%, compared to the December 2024 LEO which expected only 0.4% growth for that year.

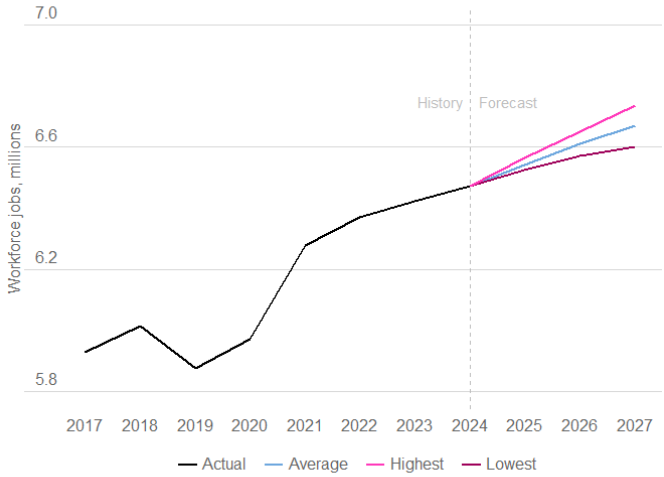
Compared to the December 2024 consensus, growth rates for 2025 have been revised marginally upwards and for 2026 have been revised slightly downward. The range of growth projections is widest in 2027, with a difference of 0.9 percentage points between the highest and lowest forecasts. By 2027, the lowest-growth profile would see employment 1.1% below the consensus level, while the highest-growth profile would leave employment 0.9% above, creating a 2.0% gap between the two projections.

In terms of absolute employment levels, the workforce is expected to rise from 6.5 million persons in 2025 to 6.7 million in 2027, with differences between the highest and lowest employment levels widening from 0.6% in 2025 to 2.0% in 2027.

Annual growth



Level (millions of workforce jobs)



Annual growth (%)			
	2025	2026	2027
Average	1.1	1.1	0.9
Lowest	0.8	0.7	0.4
Highest	1.4	1.3	1.3

Level (millions of workforce jobs)			
	2025	2026	2027
Average	6.5	6.6	6.7
Lowest	6.5	6.6	6.6
Highest	6.6	6.6	6.7

History: Annual growth (%)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2.0	2.5	2.1	0.9	1.5	-2.3	1.6	5.2	1.4	0.8

History: Level (millions of persons)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
5.6	5.8	5.9	5.9	6.0	5.9	6.0	6.3	6.4	6.4

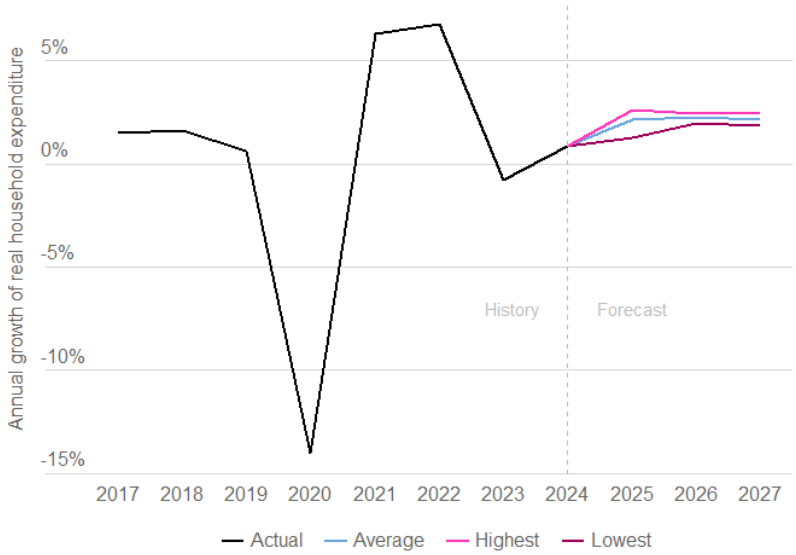
Household expenditure

(Constant prices (base year 2022), £ billion)

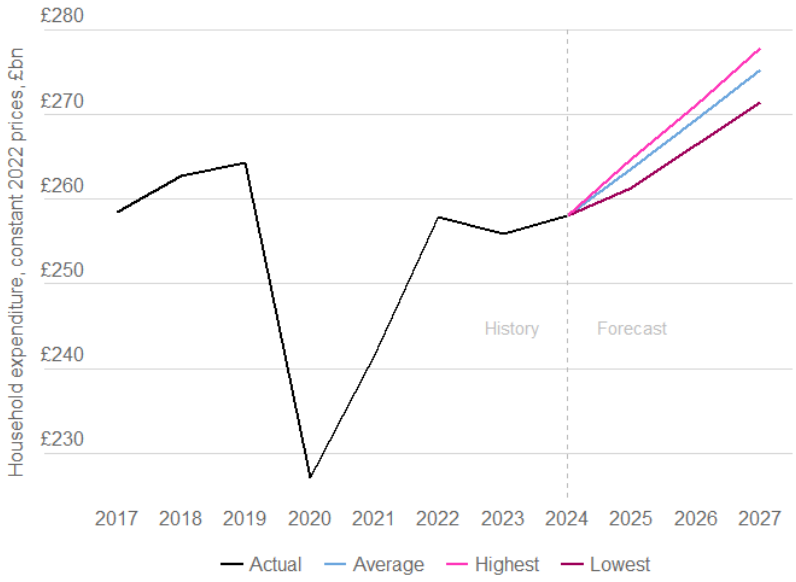
The June 2025 consensus projects growth of 2.1% in 2025, rising further to 2.3% in 2026 and stabilizing at 2.1% in 2027.

This is stronger than the December consensus forecast, which projected growth of 1.2% in 2025 and 2.0% in 2026. The upward revision reflects a more optimistic outlook on household spending.

Annual growth



Level (constant 2022 prices, £ billion)



Annual growth (%)			
	2025	2026	2027
Average	2.1	2.3	2.1
Lowest	1.3	2.0	1.8
Highest	2.6	2.4	2.5

Level (constant 2022 prices, £ billion)			
	2025	2026	2027
Average	263.5	269.5	275.3
Lowest	261.3	266.5	271.4
Highest	264.8	271.2	277.8

History: Annual growth (%)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2.6	3.4	1.5	1.6	0.6	-14.1	6.3	6.8	-0.8	0.9

History: Level (constant 2022 prices, £ billion)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
246.3	254.6	258.4	262.7	264.3	227.2	241.5	257.9	255.9	258.1

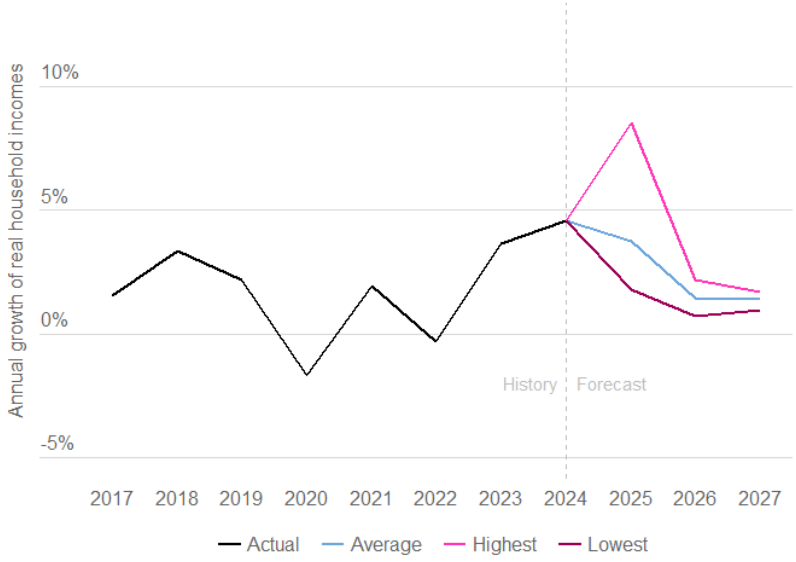
Household income

(London real disposable household income, constant prices (base year 2022), £ billion)

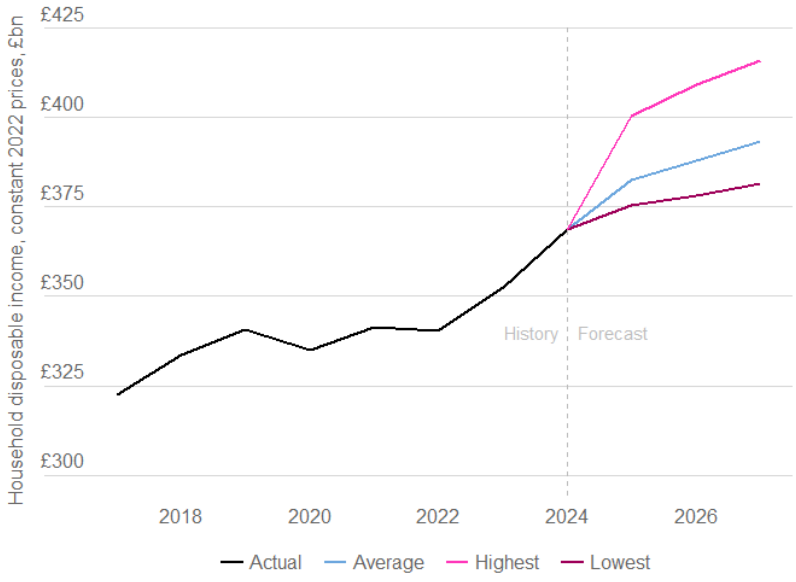
The consensus forecast for household income is for growth of 3.7% in 2025, before moderating to 1.4% in both 2026 and 2027.

The consensus forecast has been upgraded from the December 2024 LEO for this year whilst being downgraded for next year.

Annual growth



Level (constant 2022 prices, £ billion)



Annual growth (%)			
	2025	2026	2027
Average	3.7	1.4	1.4
Lowest	1.8	0.7	0.9
Highest	8.5	2.2	1.7

Level (constant 2022 prices, £ billion)			
	2025	2026	2027
Average	382.5	388.1	393.5
Lowest	375.4	378.1	381.7
Highest	400.3	409.0	416.0

History: Annual growth (%)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
7.7	1.8	1.5	3.4	2.2	-1.7	1.9	-0.3	3.6	4.6

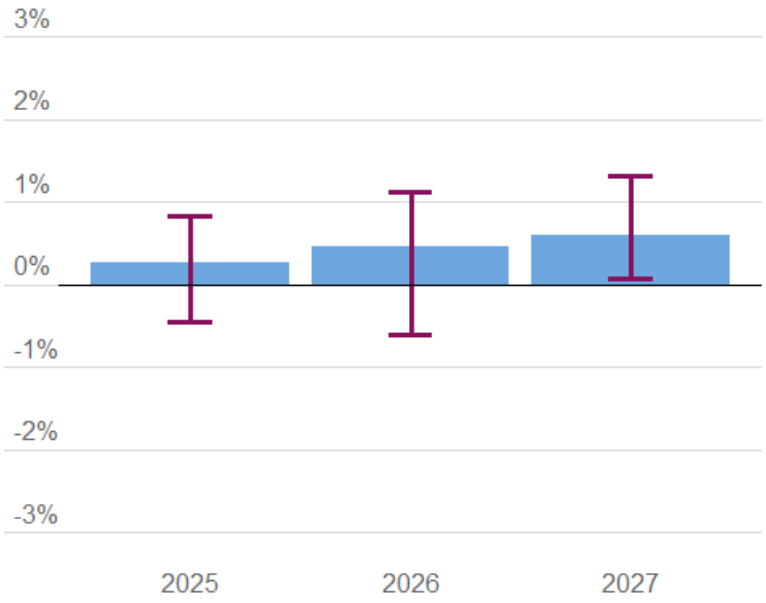
History: Level (constant 2022 prices, £ billion)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
312.2	317.7	322.6	333.5	340.7	334.9	341.3	340.3	352.6	368.8

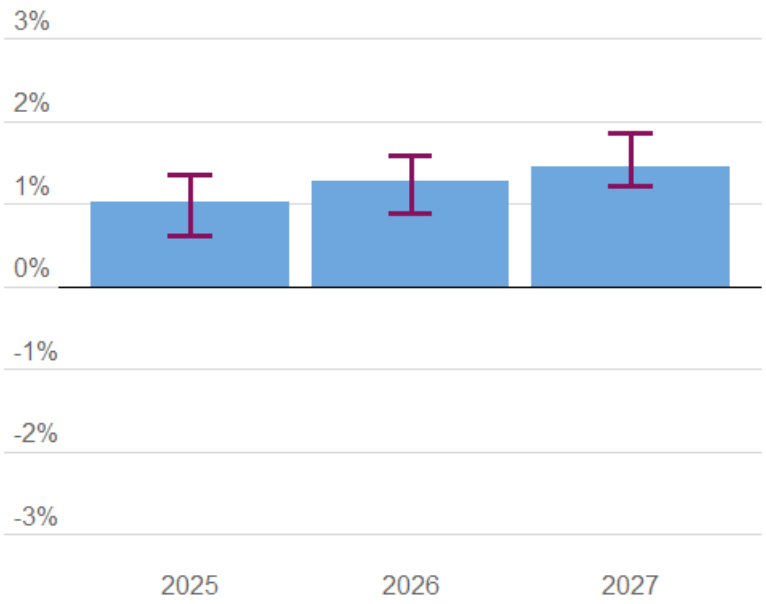
Output growth by sector

The consensus forecast expects steady growth across most of London's sectors over the next three years. However, the transport and storage sector is expected to experience a contraction this year.

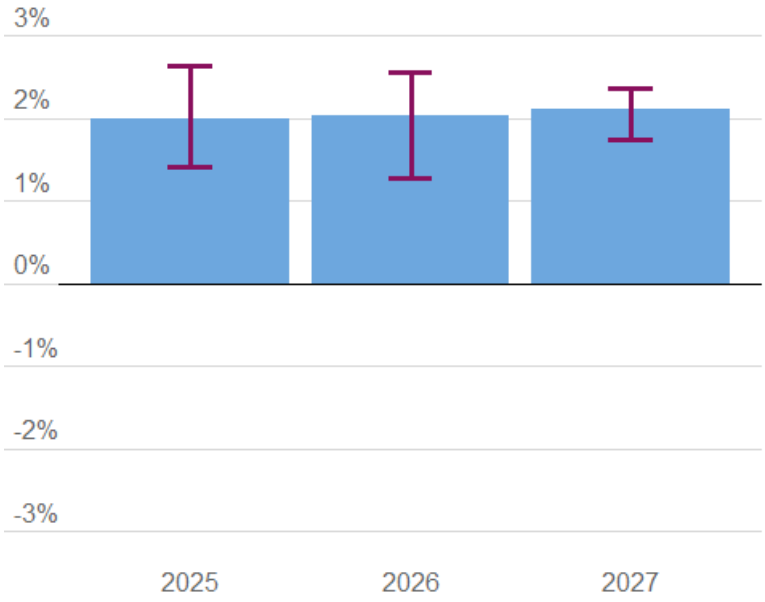
Manufacturing



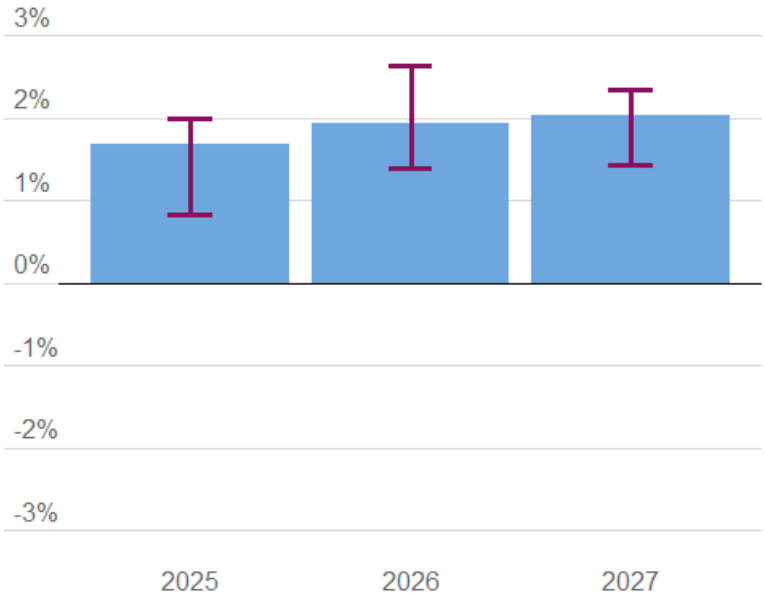
Distribution, accommodation and food service activities



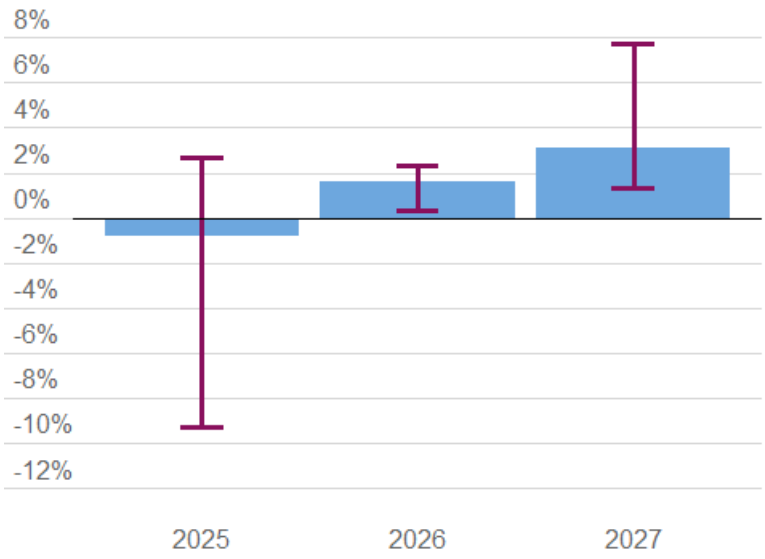
Finance and business



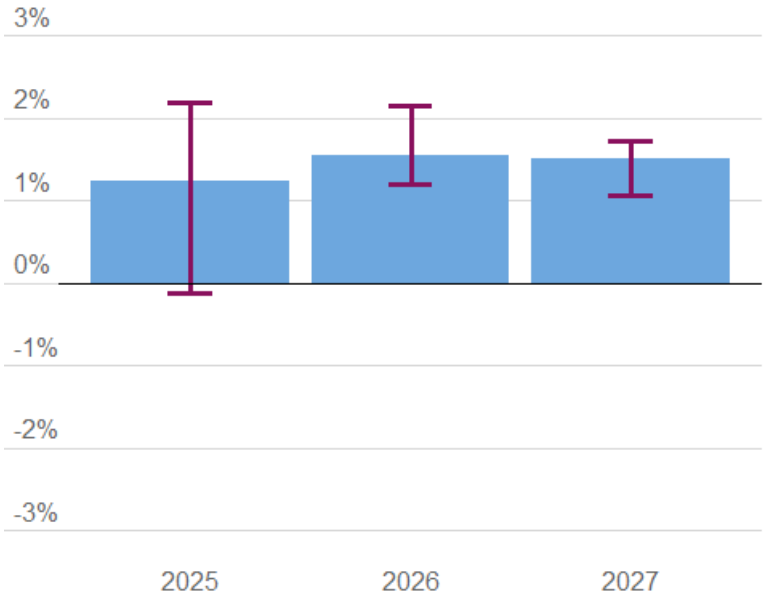
Construction



Transport and storage



Other services (public and private)

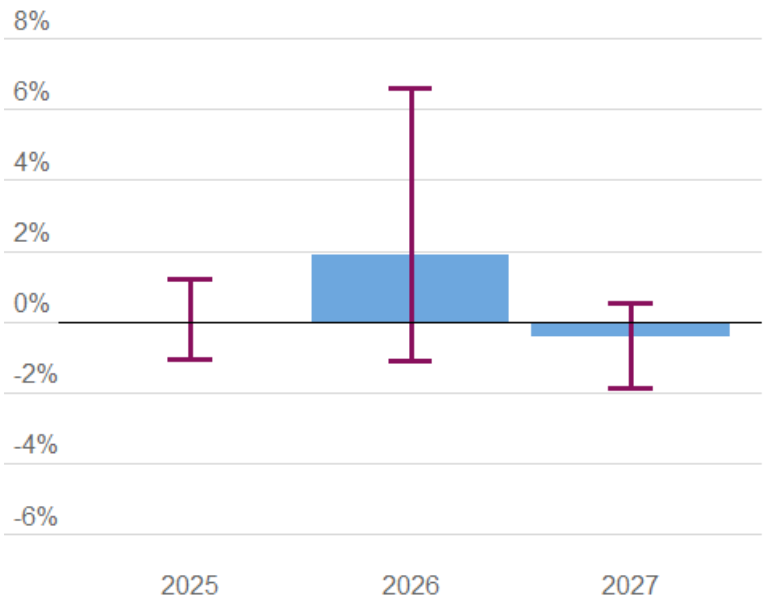


		2025	2026	2027			2025	2026	2027
Manufacturing	Average	0.3	0.5	0.6	**Construction**	Average	1.7	1.9	2.0
	Lowest	-0.5	-0.6	0.1		Lowest	0.8	1.4	1.4
	Highest	0.8	1.1	1.3		Highest	2.0	2.6	2.4
Distribution, accommodation and food	Average	1.0	1.3	1.4	**Transport and storage**	Average	-0.8	1.6	3.1
	Lowest	0.6	0.9	1.2		Lowest	-9.3	0.3	1.3
	Highest	1.4	1.6	1.9		Highest	2.7	2.3	7.7
Finance and business	Average	2.0	2.0	2.1	**Other services (public and private)**	Average	1.2	1.5	1.5
	Lowest	1.4	1.3	1.7		Lowest	-0.1	1.2	1.1
	Highest	2.6	2.6	2.4		Highest	2.2	2.2	1.7

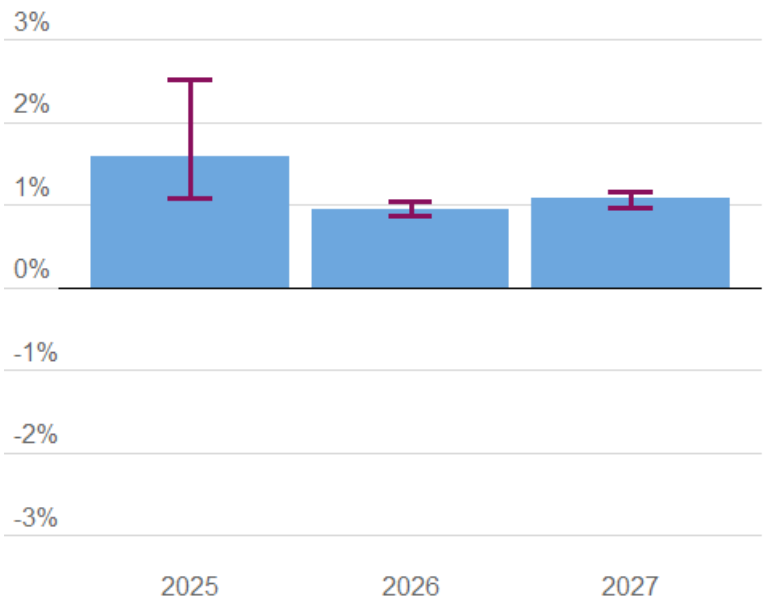
Employment growth by sector

The profile of sectoral job growth is positive, with all services sectors anticipated to expand over the next three years. However, employment in manufacturing shows notable uncertainty, with expected flat growth in 2025, a strong rebound in 2026, but a slight contraction in 2027.

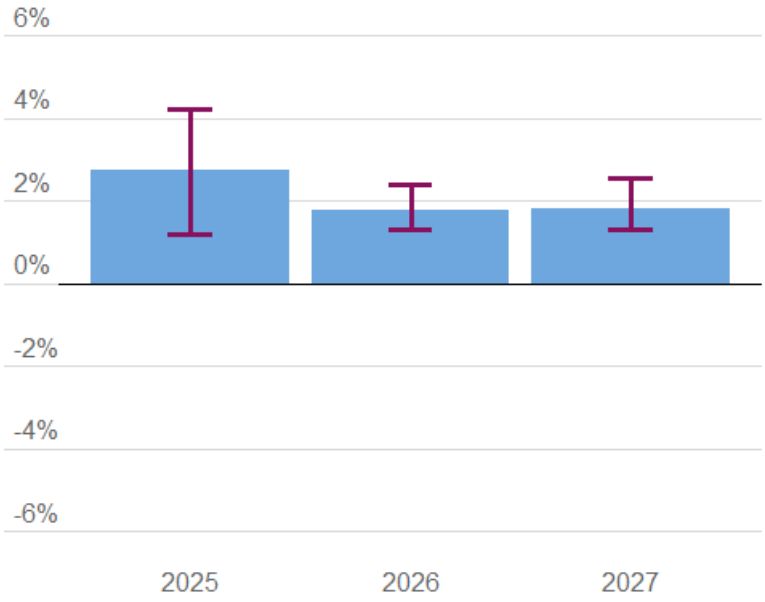
Manufacturing



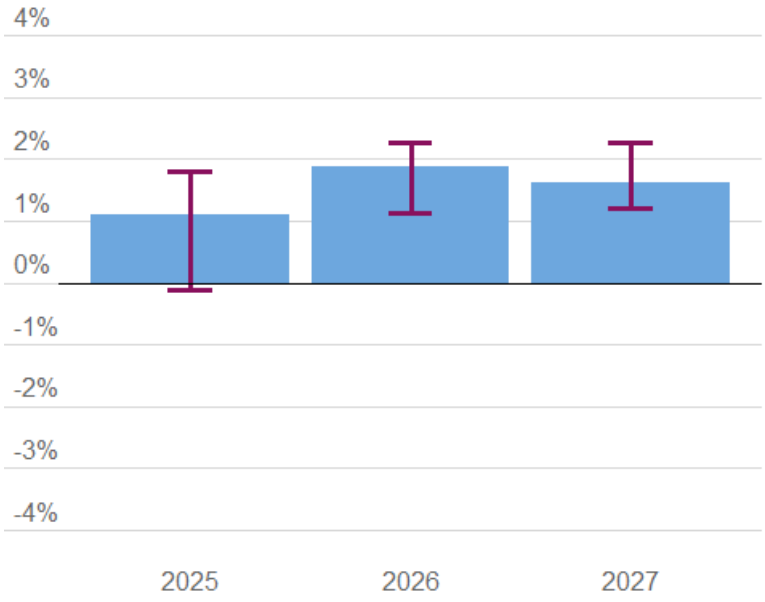
Distribution, accommodation and food service activities



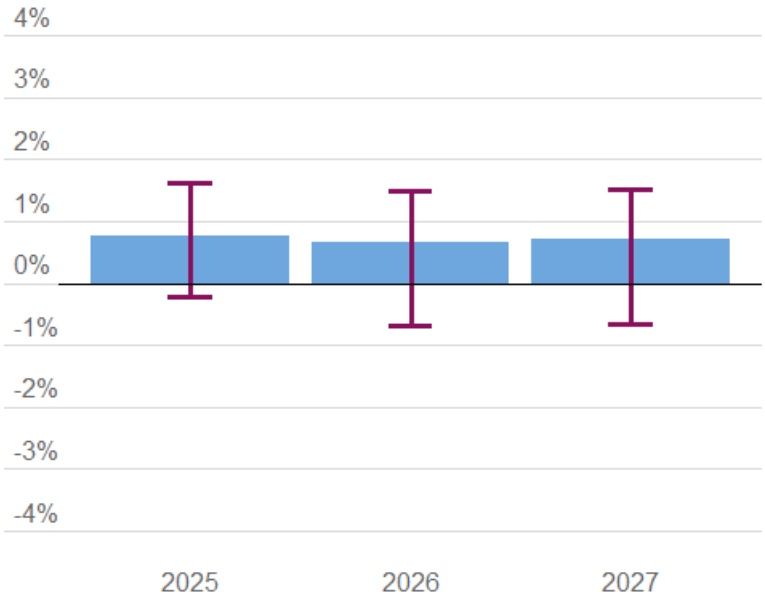
Finance and business



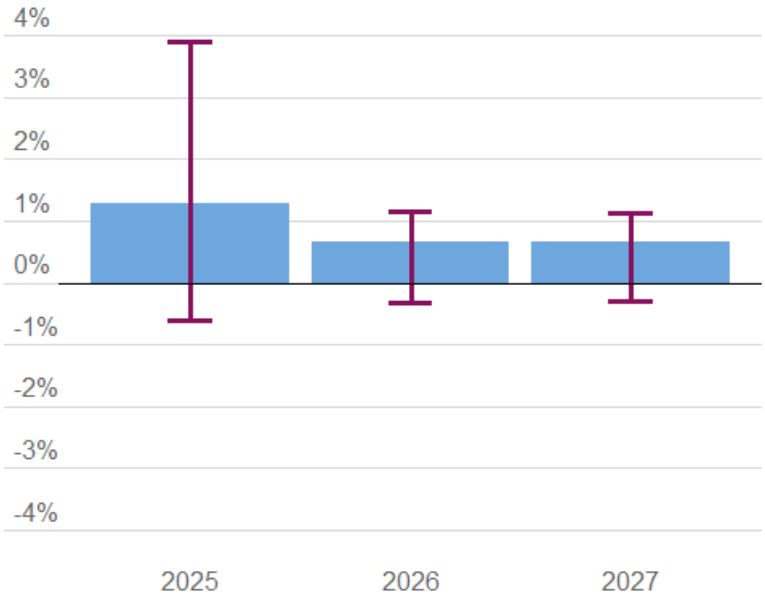
Construction



Transport and storage



Other services (public and private)



		2025	2026	2027			2025	2026	2027
Manufacturing	Average	0.0	1.9	-0.4	**Construction**	Average	1.1	1.9	1.6
	Lowest	-1.1	-1.1	-1.9		Lowest	-0.1	1.1	1.2
	Highest	1.2	6.6	0.5		Highest	1.8	2.3	2.3
Distribution, accommodation and food	Average	1.6	0.9	1.1	**Transport and storage**	Average	0.8	0.7	0.7
	Lowest	1.1	0.9	1.0		Lowest	-0.2	-0.7	-0.7
	Highest	2.5	1.0	1.2		Highest	1.6	1.5	1.5
Finance and business	Average	2.8	1.8	1.8	**Other services (public and private)**	Average	1.3	0.7	0.7
	Lowest	1.2	1.3	1.3		Lowest	-0.6	-0.3	-0.3
	Highest	4.2	2.4	2.6		Highest	3.9	1.1	1.1

5. The GLA Economics reference forecast

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

This forecast differs from the GLA's long-term employment projections[68], which are trend-based. Trend projections, by definition, do not incorporate cyclical variations and the actual course of output and employment will vary around this trend. These long-term projections are essential for planning to provide capacity (such as office space, housing and transport). They also allow planners to accommodate the needs of the economy throughout the cycle, including at its peak. However, business planning also requires estimates of actual economic aggregates in the medium term, including cyclical paths.

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

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

This analysis includes a measure of uncertainty around the central scenario using alternative scenarios developed by GLA Economics. The upside scenario envisions a steady economic recovery driven by London's relatively affluent consumers, benefiting from stabilising economic conditions and improved confidence. With inflation stabilising to 2%, cost-of-living pressures ease significantly and US tariff uncertainty reduces as time goes by. Stabilised interest rates and a more predictable economic environment could encourage household spending and business investment. Additionally, London's finance and tech sectors, combined with rising international tourism and green infrastructure investments, are expected to create jobs and support sustainable growth.

The downside scenario, however, highlights ongoing risks to London's recovery. While interest rates are not historically high, they may still suppress some levels of borrowing and investment due to the recent economic adjustment. Productivity remains subdued, weighing on London's ability to achieve higher growth. Trade frictions with the US and EU and sluggish global trade continue to challenge export-driven industries, while global economic uncertainty and geopolitical tensions impact London's broader role as a centre for international business, innovation, and investment. In this scenario, subdued growth could potentially lead to deeper scarring effects on output and employment.

5.1 Results

London's economic output demonstrated steady growth from 2018 to 2019, with annual real GVA increases of 1.9% and 1.2% respectively, before suffering a sharp contraction of -12.7% in 2020 due to the pandemic. The capital rebounded strongly in 2021 and 2022, recording growth rates of 7.7% and 8.1%, respectively. Growth slowed to 0.3% in 2023 amid persistent inflation and cost-of-living pressures before picking up to 1.1% in 2024. Our baseline central forecast projects a modest recovery with real GVA growth rising steadily to 1.6% in 2025, 1.7% in 2026, and 1.9% in 2027.

The labour market has shown resilience throughout this period. Workforce jobs declined by 2.3% in 2020 but bounced back with a strong 5.2% rise in 2022. Growth moderated thereafter, with 1.4% growth in 2023

[68] GLA Economics (2022). 'London labour market projections 2022'.

and 0.8% in 2024. Looking ahead, jobs are expected to grow by 0.8% in 2025, 1.0% in 2026, and 1.3% in 2027, reflecting a gradual strengthening labour market.

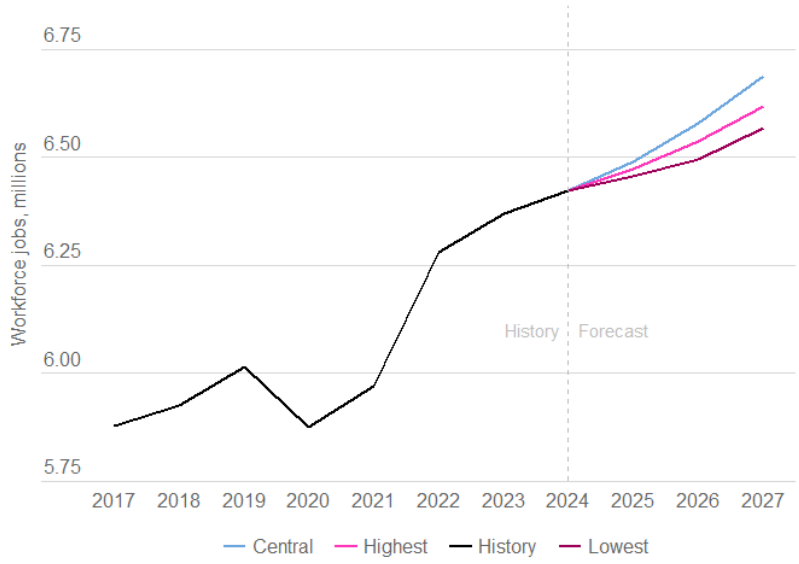
Household spending followed a similar pattern, contracting sharply by 14.1% in 2020 but recovering strongly in 2021 and 2022 with growth of 6.3% and 6.8%, respectively. Spending dipped slightly by 0.8% in 2023 but picked up a touch in 2024 with growth of 0.9%. Growth is forecast to accelerate further to 2.5% in 2025 but moderate slightly to 2.4% in 2026 and 2.1% in 2027, supported by easing inflation and improving consumer confidence.

Real disposable household income also faced a dip in 2020 (-1.7%) but recovered moderately in 2021 (1.9%). Despite a slight decline in 2022 (-0.3%), income growth accelerated to 3.6% in 2023 and then rose by 4.6% in 2024. Looking forward, income growth is expected to moderate to 2.6% in 2025 and slow further to 1.4% and 1.5% in 2026 and 2027.

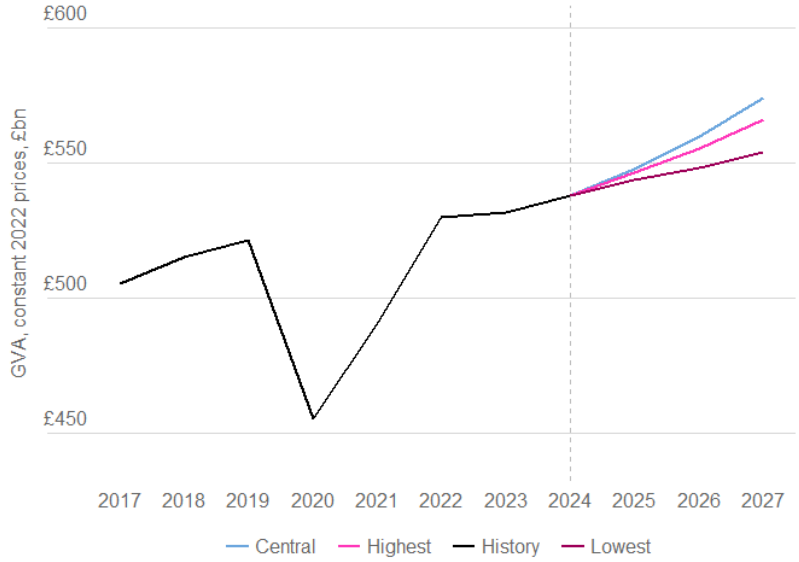
In absolute terms, London's real GVA reached approximately £531.5 billion in 2023 and we project it to have stood at £537.6 billion in 2024. It is then forecast to increase steadily to £565.7 billion by 2027. Workforce jobs numbered around 6.4 million in 2024 and are forecast to reach 6.6 million by 2027. Household spending, having stood at £258.1 billion in 2024 is expected to grow to £276.6 billion by 2027. Real disposable income rose to £368.8 billion in 2024 and is forecast to reach £389.2 billion by 2027.

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

Workforce jobs



Output



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

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

(Annual % change)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GVA	1.9	1.2	-12.7	7.7	8.1	0.3	1.1	1.6	1.7	1.9
Workforce jobs	0.9	1.5	-2.3	1.6	5.2	1.4	0.8	0.8	1.0	1.3
Household spending	1.6	0.6	-14.1	6.3	6.8	-0.8	0.9	2.5	2.4	2.1
Household income	3.4	2.2	-1.7	1.9	-0.3	3.6	4.6	2.6	1.4	1.5

Table 5.2: Scenario-based forecast and historical levels

(Constant 2022 prices, £ billion except jobs)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GVA	515.1	521.5	455.1	490.3	529.8	531.5	537.6	546.1	555.2	565.7
Workforce jobs (million)	5.9	6.0	5.9	6.0	6.3	6.4	6.4	6.5	6.5	6.6
Household spending	262.7	264.3	227.2	241.5	257.9	255.9	258.1	264.6	270.8	276.6
Household income	333.5	340.7	334.9	341.3	340.3	352.6	368.8	378.2	383.6	389.2

Output

(London GVA, constant prices (base year 2022), £ billion)

Initial data indicate that London's real GVA grew by 1.1% in 2024. Growth is expected to continue at a moderate pace, increasing to 1.6% in 2025, 1.7% in 2026, and 1.9% in 2027 under the baseline Gradual Economic Recovery scenario.

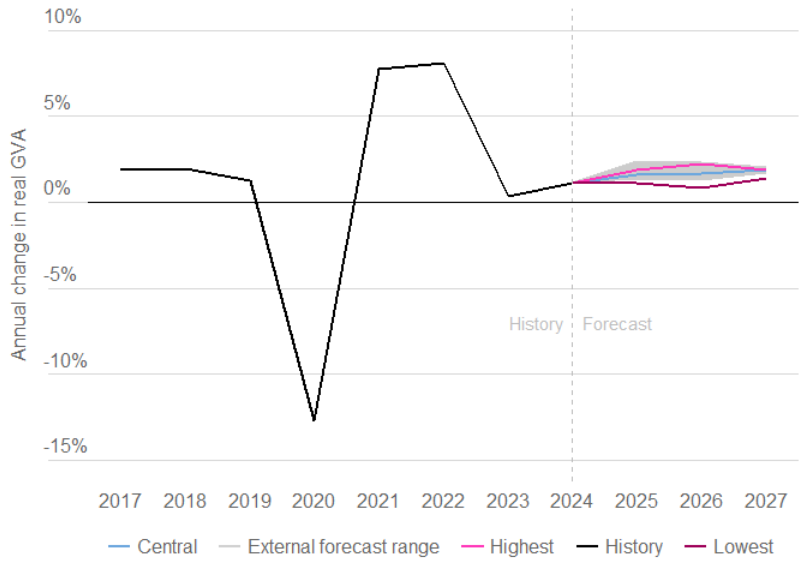
In 2024, Consumer Prices Index (CPI) inflation dropped faster than expected, and although it is now above the Bank of England's target level, inflation seems to remain generally under control. Concurrently, the UK economy demonstrated some resilience in the first half of this year. Based on these trends, our baseline scenario (gradual economic recovery scenario) projects moderate growth of 1.7% in 2025, 1.8% in 2026, and 2.3% in 2027 as interest rates stabilise, economic uncertainty diminishes, and the momentum of the service sectors continues to support recovery and expansion.

In our upside scenario (Fast Recovery), economic conditions improve more quickly, with growth reaching 1.9% in 2025, 2.2% in 2026, and 1.9% in 2027. This scenario anticipates stronger consumer spending, driven by increased household confidence and the release of savings, alongside a more dynamic recovery in global trade and investment.

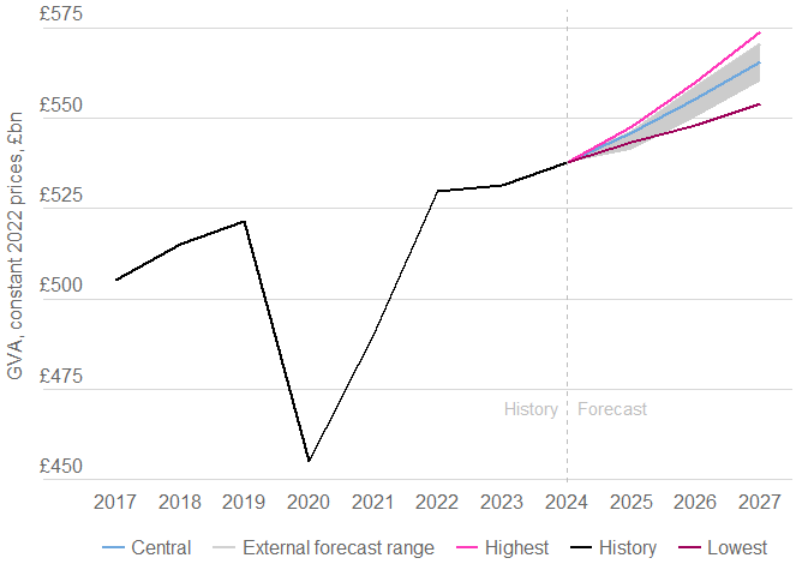
Conversely, the downside scenario (Slow Recovery) reflects a more subdued economic rebound, with growth of 1.1% in 2025, 0.9% in 2026, and 1.4% in 2027, due to prolonged geopolitical and trade uncertainty, weaker global demand, or slower productivity gains.

By 2027, output in the upside scenario is approximately 3.5% higher than in the downside scenario, highlighting the crucial role of consumer spending, global recovery, and productivity in shaping London's economic path.

Annual growth (%)



Level (constant 2022 prices, £ billion)



Growth (annual %)				
	2024	2025	2026	2027
Gradual economic recovery	1.1	1.6	1.7	1.9
Fast recovery		1.9	2.2	1.9
Slow recovery		1.1	0.9	1.4

Level (constant 2022 prices, £ billion)				
	2024	2025	2026	2027
Gradual economic recovery	537.6	546.1	555.2	565.7
Fast recovery		547.6	559.8	574.0
Slow recovery		543.4	548.1	554.0

(See Chapter 4 for tables of historical data)

Employment

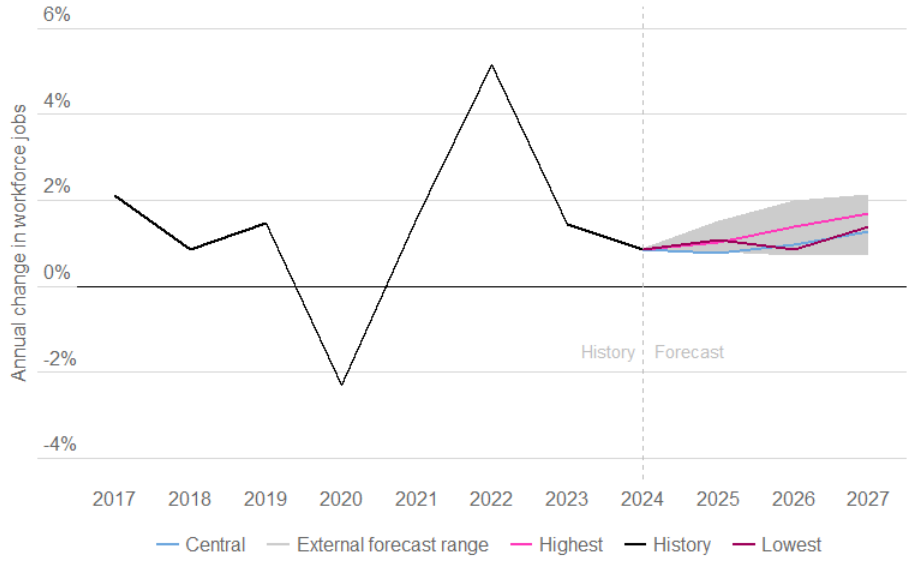
(London workforce jobs)

London's workforce jobs grew by 1.4% in 2023 and 0.8% in 2024, reflecting ongoing adjustments in the labour market after the pandemic. Recently released data for the first half of 2025 show that London's labour force participation rate remains resilient. We expect this growth in the labour market to continue, with job growth projected at 0.8% in 2025, rising to 1.0% in 2026, and accelerating to 1.3% in 2027 under our baseline Gradual Recovery Scenario. This outlook however represents a downgrade from our previous forecast.

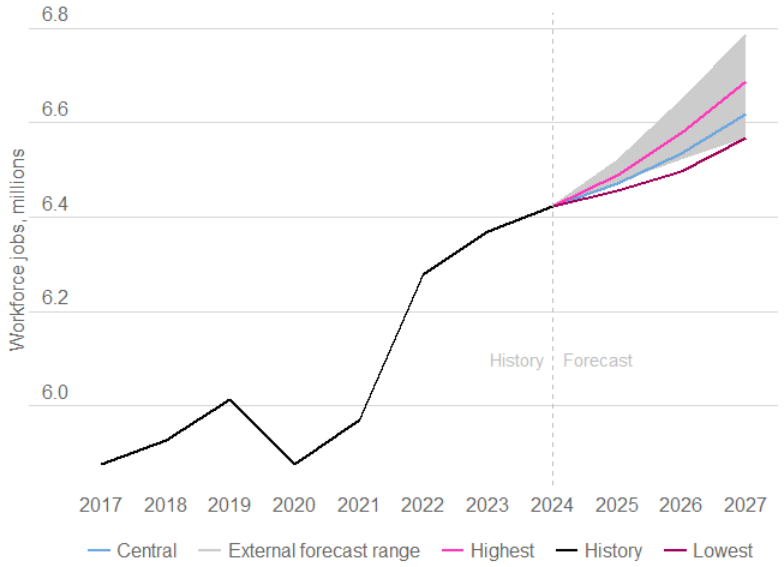
Our upside scenario envisions stronger labour market momentum, with job growth reaching 1.0% in 2025, 1.4% in 2026, and 1.7% in 2027. Meanwhile, the downside scenario projects growth rates of 1.1% in 2025, 0.9% in 2026, and 1.4% in 2027, reflecting prolonged constraints from economic uncertainty and slower productivity improvements.

More recent data indicate a slightly slower pace of job growth than expected, which is incorporated in our estimates. Our forecast is somewhat more cautious compared with external projections. Given that a resilient labour market likely underpins recent improvements in wider economic data, we see the risks to job growth as reasonably balanced, with a slight tilt towards the downside.

Annual growth (%)



Level (millions of workforce jobs)



Growth (annual %)				
	2024	2025	2026	2027
Gradual economic recovery	0.8	0.8	1.0	1.3
Fast recovery		1.0	1.4	1.7
Slow recovery		1.1	0.9	1.4

Level (millions of workforce jobs)				
	2024	2025	2026	2027
Gradual economic recovery	6.4	6.5	6.5	6.6
Fast recovery		6.5	6.6	6.7
Slow recovery		6.5	6.5	6.6

(See Chapter 4 for tables of historical data)

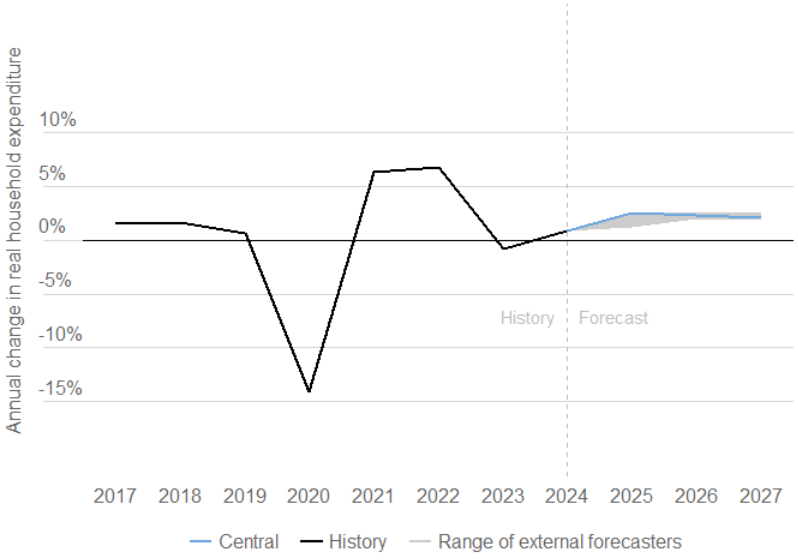
Household expenditure

(London household spending, constant prices (base year 2022), £ billion)

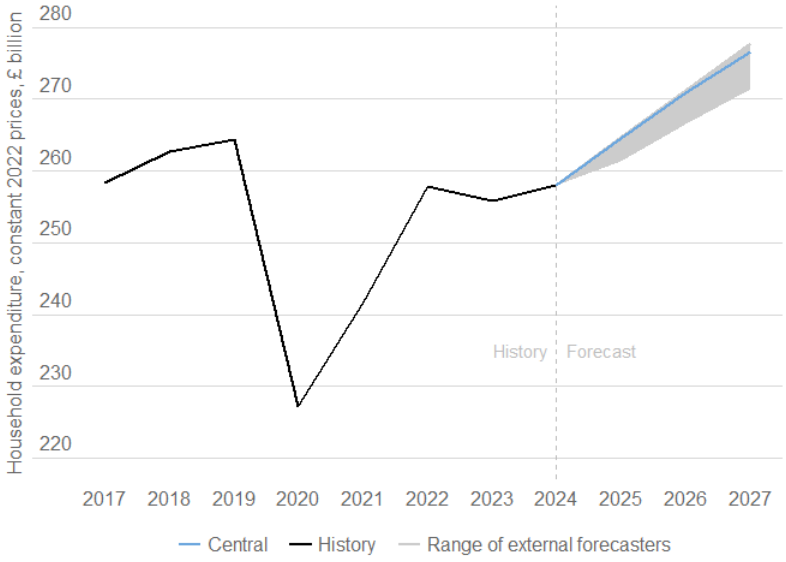
Consumer spending grew by 0.9% in 2024. Growth is then forecast to pick up to 2.5% in 2025, and then slow slightly to 2.4% in 2026 and 2.1% in 2027. This forecast represents an upward revision from our December London's Economic Outlook (LEO), which projected more subdued growth of 2.0% in 2025 and 2.1% in 2026.

External forecasters present a range of views, with the lower bound estimating growth of 1.3% in 2025, 2.0% in 2026, and 1.8% in 2027, while the upper bound forecasts growth of 2.6% in 2025, 2.4% in 2026, and 2.5% in 2027.

Annual growth (%)



Level (constant year 2022, £ billion)



(See Chapter 4 for tables of historical data)

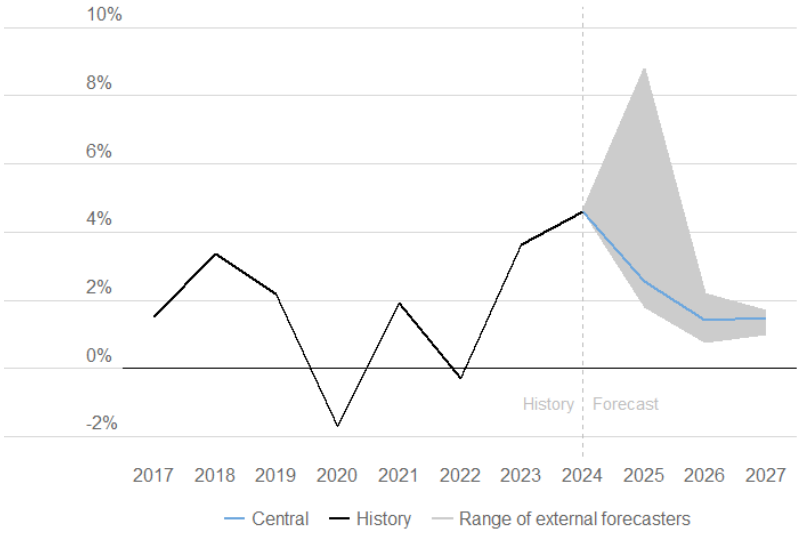
Household income

(London real disposable household income, constant prices (base year 2022), £ billion)

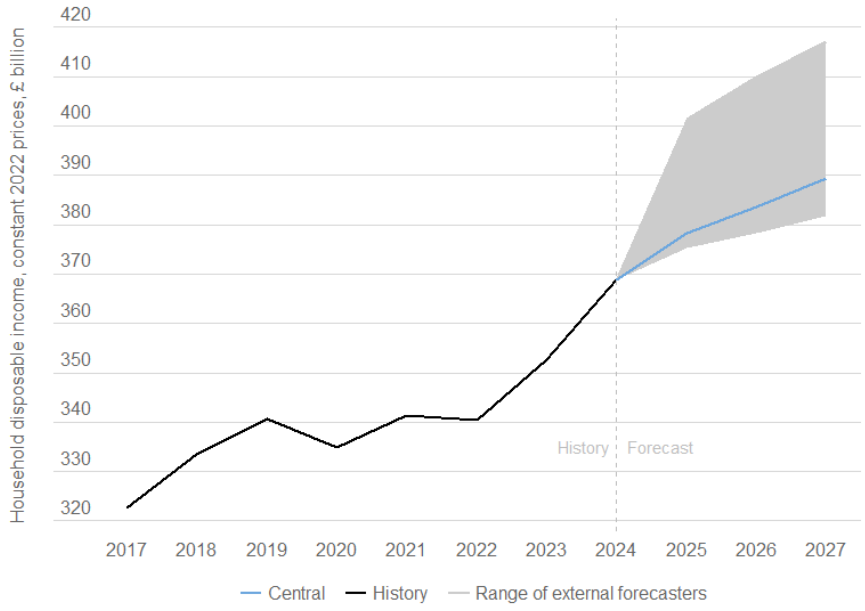
Real disposable income grew by 4.6% in 2024. GLA Economics forecasts that it will grow by 2.6% in 2025, before moderating to 1.4% in 2026 and slightly rising to 1.5% in 2027.

This forecast represents a downward revision compared to our December LEO forecast, which anticipated growth of 3.1% in 2025 and 2.0% in 2026.

Annual growth (%)



Level (constant year 2022, £ billion)

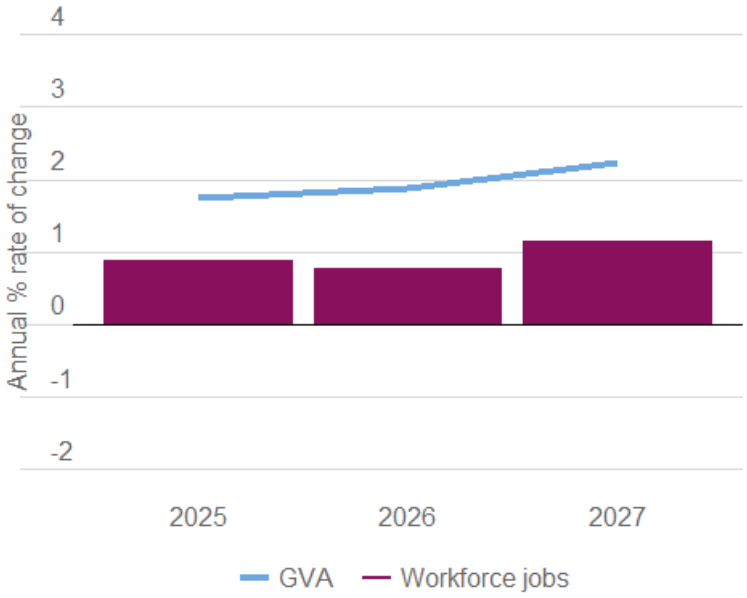


(See Chapter 4 for tables of historical data)

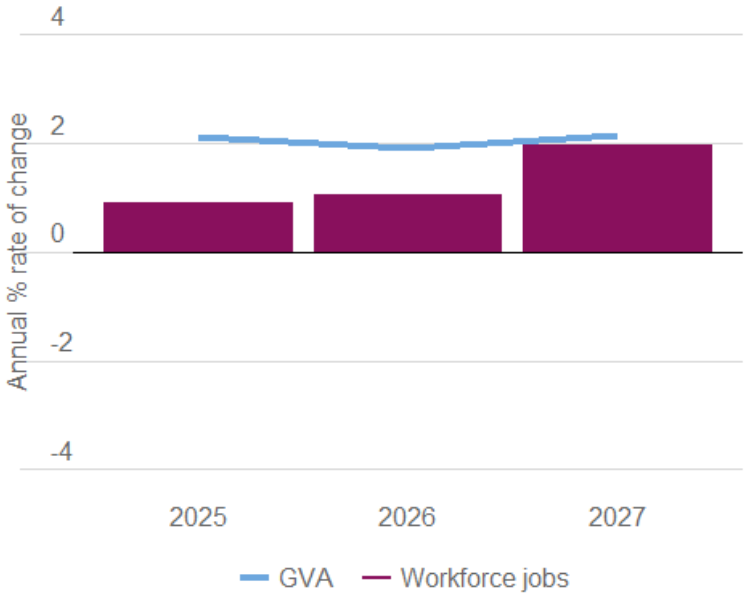
Output and employment growth by sector

(% annual change)

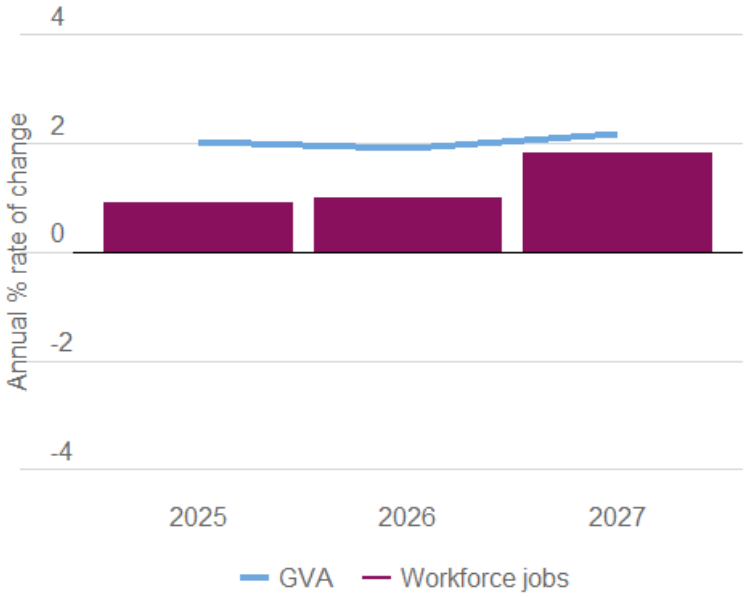
Financial services



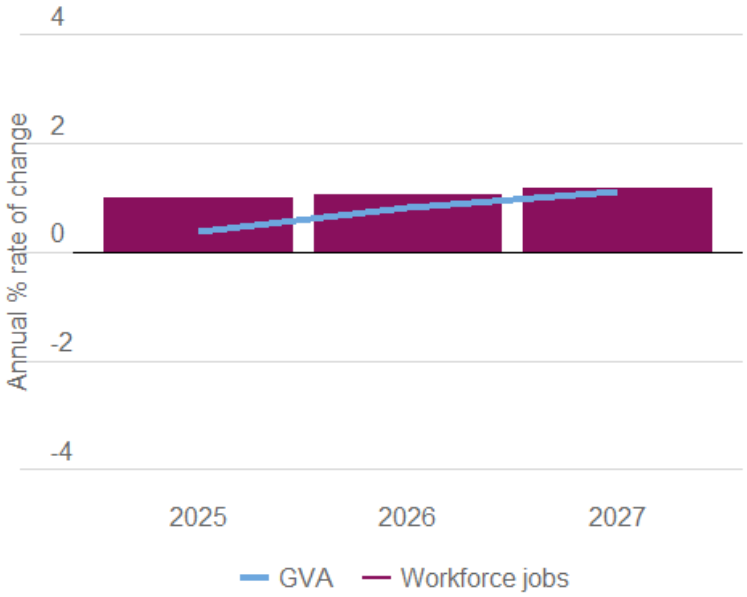
Business services



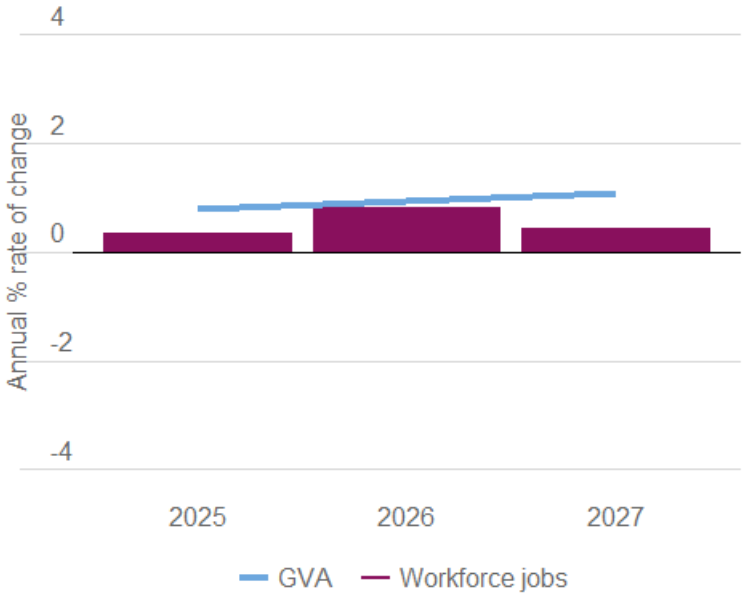
Finance and business (combined)



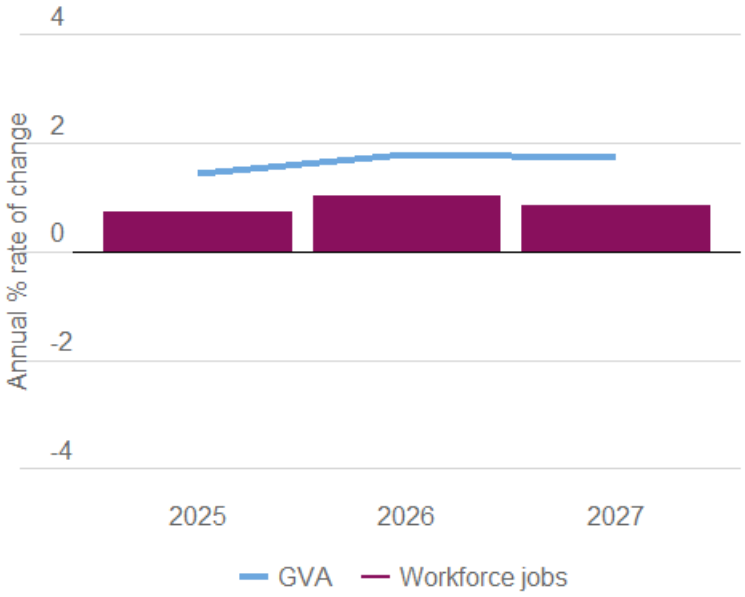
Distribution, accommodation and food services



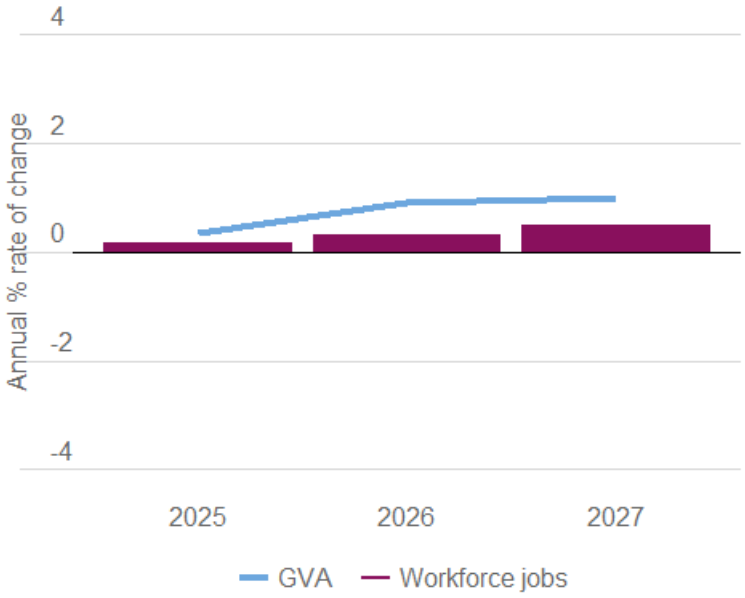
Transport and storage



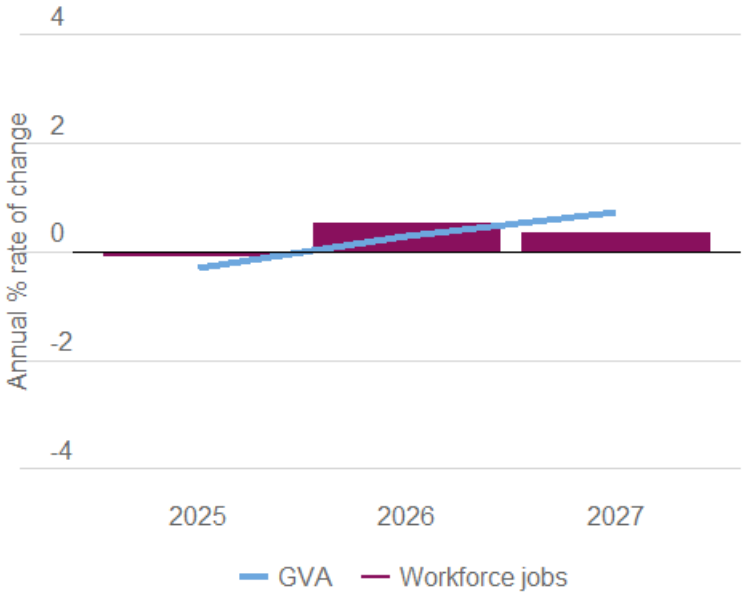
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector

(% annual change)

Main sector	2025	2026	2027
Financial services			
Output	1.7	1.9	2.2
Jobs	0.9	0.8	1.2
Business services			
Output	2.1	1.9	2.2
Jobs	0.9	1.0	2.0
Financial and business services			
Output	2.0	1.9	2.2
Jobs	0.9	1.0	1.8
Distribution, accommodation and food services			
Output	0.4	0.8	1.1
Jobs	1.0	1.1	1.2
Transportation and storage			
Output	0.8	0.9	1.1
Jobs	0.3	0.8	0.4
Other (public & private) services			
Output	1.4	1.8	1.7
Jobs	0.7	1.0	0.8
Manufacturing			
Output	0.4	0.9	1.0
Jobs	0.2	0.3	0.5
Construction			
Output	-0.3	0.3	0.7
Jobs	-0.1	0.5	0.3
(Memo: non-manufacturing)			
Output	1.6	1.7	1.9
Jobs	0.8	1.0	1.3

5.2 Comparison with previous forecasts

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

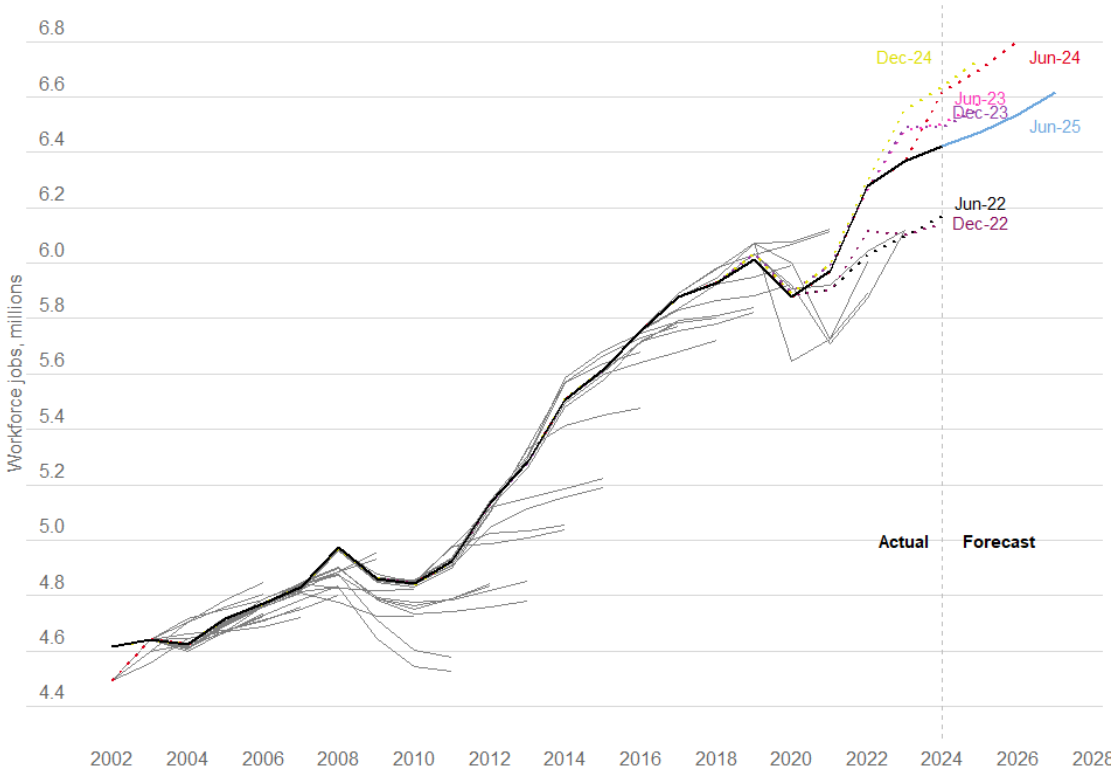
The large variation seen in projections produced over the last three years is partially due to the revisions of output and labour force data by the ONS. Additionally, some variation is attributable to the uncertain environment and evolving public health and economic policy responses to the pandemic and the cost-of-living crisis.

Workforce jobs

London's workforce jobs returned to their 2019 level in early 2022 and are expected to remain stable or grow modestly over the next three years. The Labour Force Survey reweighting from September 2022 caused a step change in ONS workforce job numbers, leading to projection gaps in 2022 and 2023. According to the latest June 2025 forecast, workforce jobs grew by 1.4% in 2023, with growth moderating to 0.8% in both 2024 and 2025, before gradually rising to 1.0% in 2026 and 1.3% in 2027.

Figure 5.2: Employment – latest forecast compared with previous forecasts

(millions of workforce jobs)



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

Table 5.3: Comparisons with previous published forecasts[69]

(London workforce jobs, % annual growth)

Forecast	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Jun-25	1.7%	4.3%	2.9%	4.3%	2.0%	2.5%	2.1%	0.9%	1.5%	-2.3%	1.6%	5.2%	1.4%	0.8%	0.8%	1.0%	1.3%
Dec-24														1.3%	1.5%	1.6%	
Jun-24														3.9%	1.3%	1.5%	
Dec-23													3.5%	0.1%	1.3%		
Jun-23													3.4%	0.4%	1.2%		
Dec-22												3.6%	-0.2%	0.7%			
Jun-22												2.2%	1.1%	1.2%			
Dec-21											0.2%	2.1%	1.2%				
May-21											-3.6%	2.9%	4.2%				
Dec-20										-1.1%	-4.6%	3.0%					
Jun-20										-7.0%	1.4%	4.9%					
Dec-19									1.5%	0.1%	0.7%						
Jun-19									0.8%	0.7%	0.8%						
Nov-18								1.5%	0.5%	0.7%							
May-18								0.6%	0.3%	0.7%							
Nov-17							1.4%	0.3%	0.5%								
Jun-17							0.7%	0.5%	0.7%								
Nov-16						2.5%	1.2%	0.3%									
May-16						0.7%	0.7%	0.7%									
Nov-15					1.7%	1.2%	0.7%										
May-15					1.7%	1.2%	0.7%										
Nov-14				4.5%	1.2%	0.7%											
May-14				1.6%	0.7%	0.5%											
Nov-13			1.3%	0.8%	0.7%												
Jul-13			0.6%	0.7%	0.7%												
Nov-12		1.0%	0.2%	0.4%													
Jun-12		0.2%	0.4%	0.6%													
Nov-11	0.1%	0.4%	0.4%														
May-11	0.1%	0.7%	0.8%														
Oct-10	0.6%	1.0%															
Jun-10	0.8%	1.1%															
Oct-09	-0.6%																
Apr-09	-0.4%																

Source: ONS, GLA Economics

[69] This table only reports forecasts for 2011 onwards unlike Figure 5.2. For earlier GLA Economics forecasts please see previous editions of London's Economic Outlook.

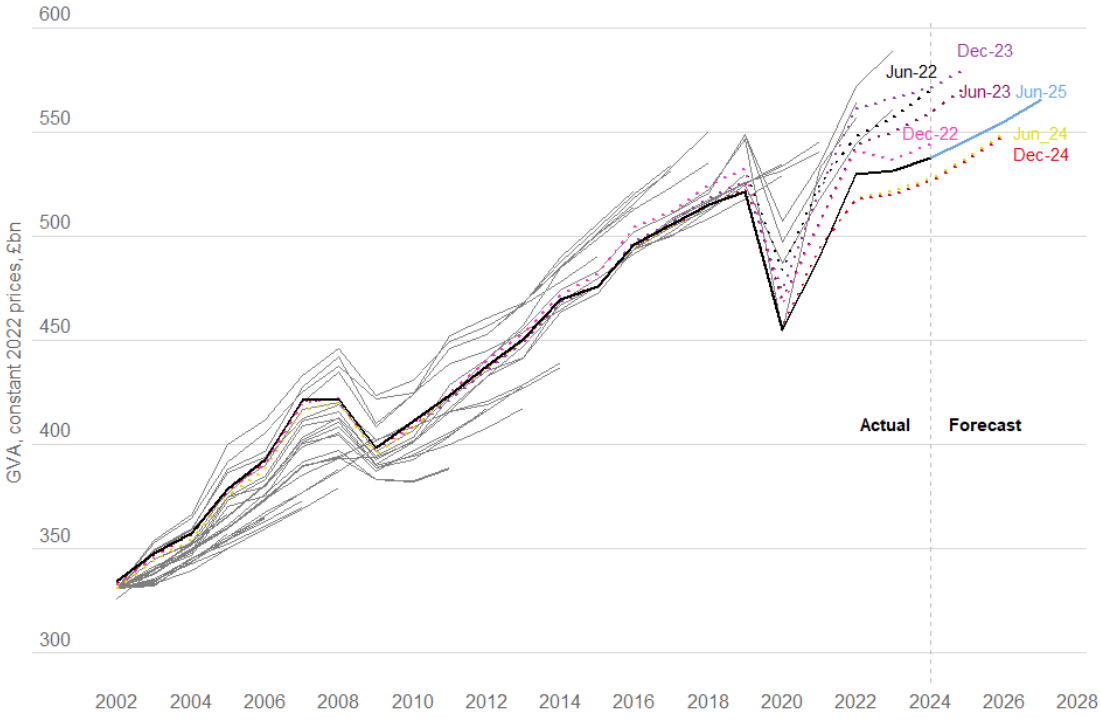
Output

The latest medium-term forecast for London's GVA growth is somewhat similar to the December 2024 forecast. Notable differences between recent and earlier forecasts largely stem from significant revisions of 2020, 2021 and 2022 regional output data by the ONS, which complicate direct comparisons.

The June 2025 forecast projects GVA growth of 1.1% in 2024, with it increasing to 1.6% in 2025, 1.7% in 2026, and 1.9% in 2027.

Figure 5.3: Output – latest forecast compared with previous forecasts.

(constant prices (base year 2019), £ billion)



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

Table 5.4: Comparisons with previous published forecasts[70]

(London GVA, % annual growth)

Forecast	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Jun-25	**3.0%**	**3.2%**	**3.0%**	**4.3%**	**1.3%**	**4.2%**	**1.9%**	**1.9%**	**1.2%**	**-12.7%**	**7.7%**	**8.1%**	**0.3%**	**1.1%**	**1.6%**	**1.7%**	**1.9%**
Dec-24														1.2%	1.9%	2.2%	
Jun-24														1.1%	1.9%	2.2%	
Dec-23													0.9%	1.0%	1.6%		
Jun-23													1.1%	1.8%	2.2%		
Dec-22												6.9%	-0.8%	1.5%			
Jun-22												4.5%	1.6%	2.3%			
Dec-21											6.4%	5.0%	3.1%				
May-21											5.4%	6.9%	3.1%				
Dec-20										-9.5%	6.2%	6.9%					
Jun-20										-16.8%	17.2%	4.5%					
Dec-19									1.8%	1.1%	1.8%						
Jun-19									1.5%	1.6%	2.2%						
Nov-18								1.9%	1.6%	1.9%							
May-18								1.6%	1.9%	2.2%							
Nov-17							2.1%	1.8%	2.6%								
Jun-17							2.3%	2.4%	2.9%								
Nov-16						2.8%	2.0%	2.3%									
May-16						2.9%	3.4%	3.3%									
Nov-15					3.4%	3.2%	2.7%										
May-15					3.6%	3.2%	2.5%										
Nov-14				4.8%	3.3%	3.1%											
May-14				3.8%	3.2%	2.6%											
Nov-13			2.2%	2.5%	2.5%												
Jul-13			1.9%	2.4%	2.5%												
Nov-12		0.9%	1.8%	2.4%													
Jun-12		1.2%	1.9%	2.5%													
Nov-11	1.4%	2.0%	2.4%														
May-11	2.0%	2.6%	2.9%														
Oct-10	2.4%	2.9%															
Jun-10	2.8%	3.3%															
Oct-09	1.5%																
Apr-09	1.7%																

Source: ONS, ESCoE, GLA Economics

[70] This table only reports forecasts for 2011 onwards, unlike Figure 5.3. For earlier GLA Economics forecasts please see previous editions of London's Economic Outlook.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

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

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

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

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

At the time of writing national statistics estimates of real regional GVA are available up to 2023 from the ONS[71]. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

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

[71] ONS Regional GVA (balanced approach).

Appendix B: Glossary of acronyms

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

Appendix C: Bibliography

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GLAECONOMICS

Greater London Authority
City Hall
Kamal Chunchie Way
London E16 1ZE

Tel 020 7983 4000
Minicom 020 7983 4000
Email glaeconomics@london.gov.uk

MAYOR OF LONDON