GLAECONOMICS

London's Economy Today

Issue 281 | January 2026

UK inflation picks up in December

By **Jubair Ahmed**, Economist, **Gordon Douglass**, Supervisory Economist, and **Sixia Zhang**, Economist

The Office for National Statistics (ONS) published data on December's Consumer Price Index (CPI) inflation this month. This showed that CPI inflation rose by 3.4% in the 12 months to December 2025; up from 3.2% in November (Figure 1). This was higher than expected by most surveyed economists who had anticipated it to rise to 3.3%. Inflation continues to remain above the Bank of England's central symmetrical target of 2% ±1%.

Looking at the data in more detail the ONS notes that "alcohol and tobacco, and transport made the largest upward contributions to the monthly change". UK inflation also remains above that seen in other countries with the ONS observing that "the UK's CPI inflation rate of 3.4% was higher than Germany's (2.0%) and France's (0.7%) in December. The last time the UK rate was lower than the rate in Germany was December 2024".

Beyond the headline inflation figure other inflation measures also generally ticked up. Core CPI (excluding volatile energy, food, alcohol and tobacco prices) inflation stood at 3.2% over the year to December 2025, unchanged from November. The CPI goods annual rate increased to 2.2%, up from 2.1%. While the CPI services annual rate rose slightly to 4.5% in December up from 4.4% in November.

UK GDP returned to growth in November

The ONS also published data this month which showed that the UK economy returned to growth in November. Output grew by 0.1% in the three months to November 2025 after not growing (revised up from a contraction) in the three months to October (Figure 2).

Also in this issue

Datastore

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

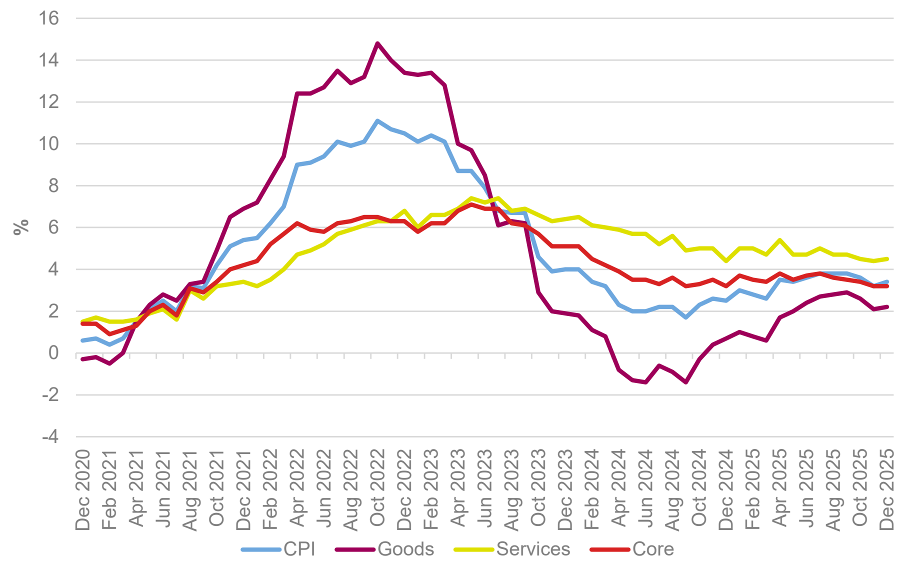


Figure 1: CPI, goods, services and core annual inflation rates, UK, December 2020 to December 2025

Source: ONS, GLA Economics

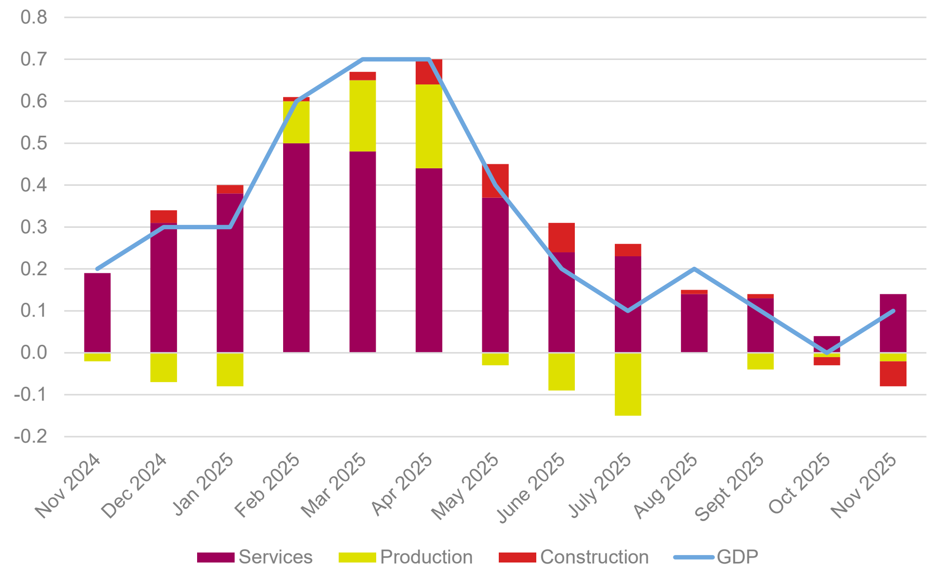


Figure 2: UK real three month GDP growth, November 2024 to November 2025

Source: ONS

On a monthly basis GDP grew by 0.3% in November after falling by 0.1% in October and growing by 0.1% September. This compares to an expectation of 0.1% growth from polled economists. Looking at the three-monthly data in more detail the ONS observes that the services sector, an important sector for London, grew by 0.2% in the three months to November 2025, after growing by an upwardly revised 0.1% in the three months to October. However, both the production and construction sectors shrunk over the three months to November by 0.1% and 1.1% respectively following falls of 0.1% and 0.3% in the three months to October. Compared to November 2024 GDP is estimated to be 1.3% higher in November 2025.

The IMF forecasts UK economic growth this year, while inflation returns to target

The latest [IMF World Economic Outlook Update] (January 2026) forecasts UK growth at 1.4% for 2025, 1.3% for 2026, and 1.5% for 2027 – these forecasts are unchanged from its October forecast. Growth in the Eurozone is forecast at a near-identical trajectory of 1.4% for 2025, 1.3% for 2026, and 1.4% for 2027. Global growth is projected at 3.3% for 2026, revised upwards by 0.2 percentage points (pp) due in part to (1) increased Asian exports of semiconductors and related manufacturing equipment, and (2) increased "AI-related investment in both hard and soft infrastructure" by the US.

UK inflation, which rose last year partly due to one-off regulatory price changes, is forecast to return to the Bank of England's 2% target by the end of 2026, as a softening labour market eases wage growth and thus domestic inflationary pressures. Eurozone headline inflation is already hovering around 2%, while US inflation is not expected to return to 2% until 2027. Monetary policy reflects these inflationary paths: the Bank of England and Federal Reserve are expected to continue cutting rates (though more gradually in the US) while the European Central Bank is expected to hold steady.

Growth in global trade volumes is expected to slow from 4.1% in 2025 to 2.6% in 2026, as front-loading (i.e., the rush to move goods ahead of anticipated tariffs) unwinds and trade flows adjust to shifting policies. In its forecast, the IMF stresses the downside risk of growth driven by a handful of US technology firms. If AI fails to deliver expected productivity gains, a sharp price correction could follow - tightening credit conditions and hitting household wealth. Under this IMF scenario, this combination reduces global growth by 0.4 pp.

London's financial services (responsible for roughly a quarter of London's overall output) are embedded in the global AI investment cycle - with its investment banks, law firms, and asset managers underwriting debt and managing portfolios that are increasingly weighted towards US tech firms. A sharp correction in AI-related asset prices would hit London through rising business uncertainty, tightening credit conditions, and falling fee incomes (and thus financial services output). London's degree of exposure depends on the compositions of portfolios across its firms (data on which is not publicly available) - but the direction is clear. Although some firms have started to hedge against US tech firm exposure, the capital's asset managers run globally diversified portfolios as standard. If a price correction happens, spillovers to the capital's financial sector seem likely.

London's labour market remains soft

The data for London's labour market continues to be soft with the number of payrolled employees living in London falling again in December, with younger workers and those living in inner London boroughs seeing the steepest falls over the last year. Nominal pay growth for employees ticked up in December on an annual basis but recent months have seen real pay drop. The timely estimate of payrolled employees (which is subject to revision) showed a decrease of 10,700 (-0.2 pp) in the number of payrolled employees in London between November and December 2025, and a decrease of 1.1% on the year. London also saw a decline in the less timely measure of the employment rate, while the unemployment rate in London rose close to its pandemic-era high. However, London's inactivity rate (the measure of those not looking and/or not available to work) was estimated at 20.3%. This was a decrease of 0.1pp on the previous year, and a decrease on the quarter. It is lower than the UK-wide estimate of 20.8%.

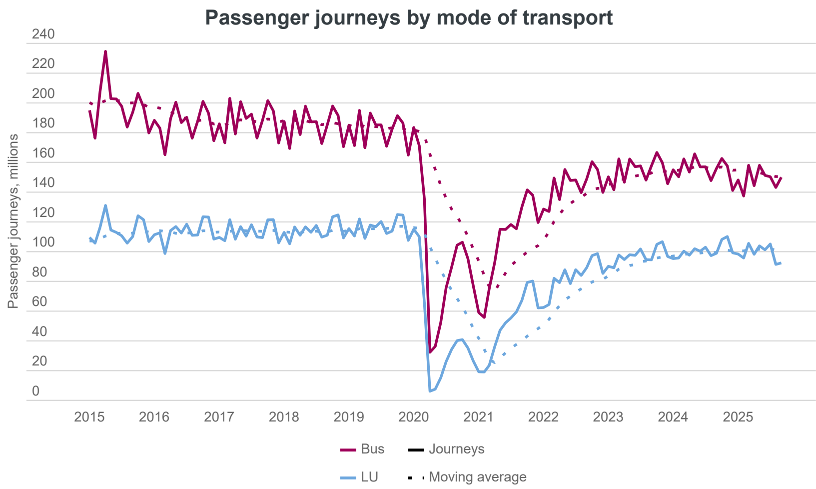
GLA Economics will continue to monitor these (and other) aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport increased in September 2025

- In 2025, 242.4 million passenger journeys were registered in September, 7.8 million more than in August.
- In the latest period, 92.4 million of all journeys were underground journeys and 150.0 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys fell marginally from 251.5 million in the previous period to 251.3 million in the latest period.

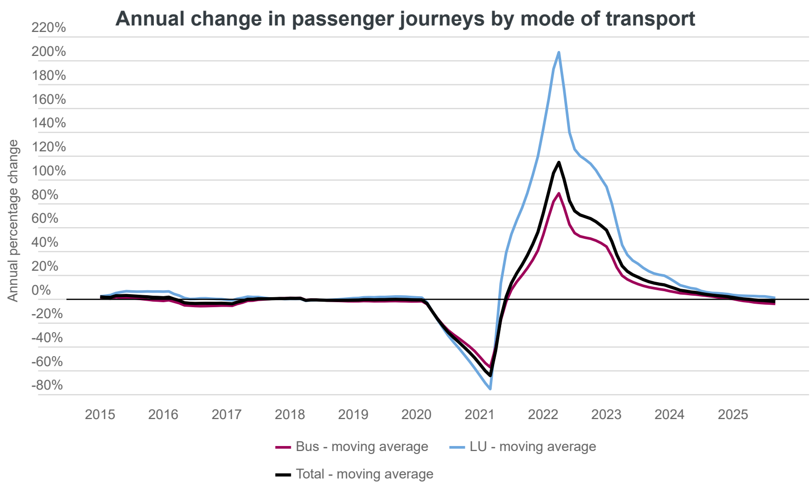
Source: Transport for London
Latest release: January 2026, Next release: February 2026



Annual growth in passenger journeys weakened

- In 2025, the 13-period moving average annual growth rate in the total number of passenger journeys weakened, from a decline of 1.4% in August to a decline of 1.9% in September.
- The moving average annual growth rate of bus journeys also weakened, falling from a decline of 3.5% in August to a decline of 3.8% in September.
- The moving annual average growth rate of underground passenger journeys remained positive but eased from 1.9% in August to 1.2% in September.

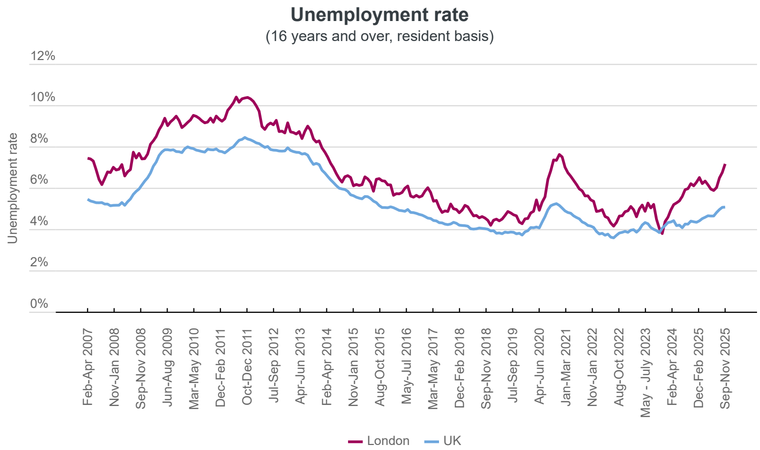
Source: Transport for London
Latest release: January 2026, Next release: February 2026



London's unemployment rate increased over the last quarter

- Around 376,000 residents aged 16 and over were unemployed in London in the period from September – November 2025.
- The unemployment rate in London for that period was 7.2%, a significant increase from 6.0% in the previous quarter (June – August).
- The UK's unemployment increased to 5.1% in September - November 2025, up from 4.8% in the previous quarter.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

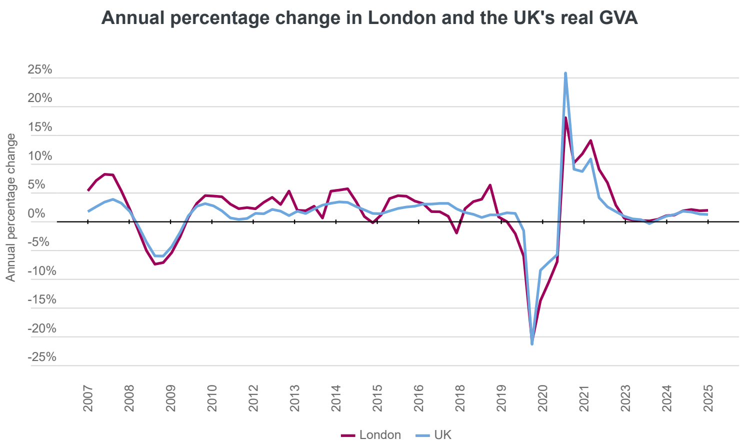
Source: ONS Labour Force Survey
Latest release: January 2026, Next release: February 2026



London's economy continues to expand through Q3 2025

- The ONS has published annual real GVA data for London for 2023, alongside revised figures for 1998 to 2022. Based on these revisions, GLA Economics has updated its quarterly GVA estimates for 1998 Q1 to 2023 Q4, and produced nowcasts for 2024 Q1 to 2025 Q3.
- According to the latest data, London's real GVA grew by 0.3% in 2023, matching the UK-wide growth rate. This followed a significant upward revision to 2022, with growth now estimated at 8.1%, up from the previously reported 4.8%.
- GLA Economics nowcasts that London's output rose by 1.1% in 2024.
- GLAE estimates indicate that London's economy expanded by 0.8% in Q1 2025, followed by growth of 0.4% in Q2 and 0.3% in Q3. Growth in each quarter exceeded that of the UK as a whole, which recorded increases of 0.7%, 0.3% and 0.1% respectively. By Q3 2025, London's GVA stood 6.7% above its pre-pandemic level (Q4 2019), continuing to outperform the UK overall, where output was 5.5% above its pre-pandemic level.

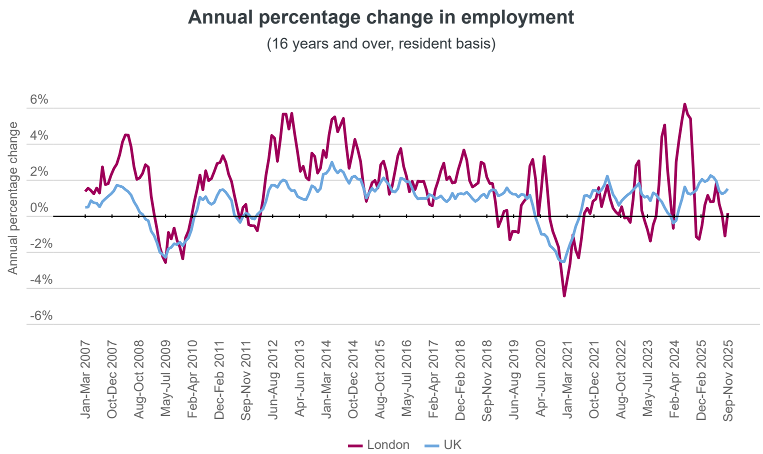
Source: ONS and GLA Economics calculations
Latest release: December 2025, Next release: June 2026



London's year-on-year employment growth rate rose in the quarter to November 2025

- Around 4.9 million London residents aged 16 and over were in employment during the three-month period from September to November 2025.
- London's employment increased by 0.2% year-on-year this quarter, compared with the 0.7% growth in the quarter leading up to August.
- Employment in the UK as a whole grew by 1.5% in the year to this quarter, an increase from the 1.4% growth in the previous quarter.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

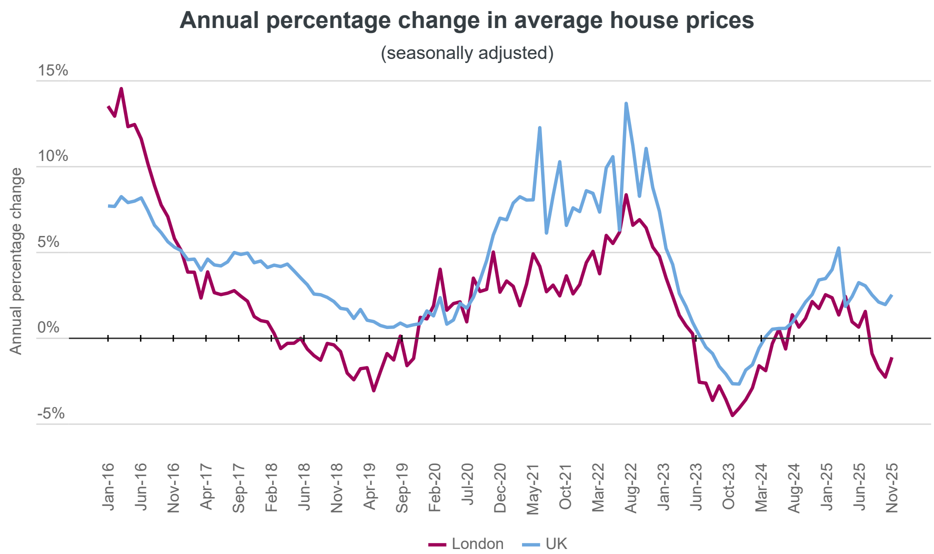
Source: ONS Labour Force Survey
Latest release: January 2026, Next release: February 2026



On an annual basis house prices fell in London in November 2025

- In November 2025, the average house price in London was £554,000 while in the UK it was £269,000.
- Average house prices in London fell by 1.1% year-on-year in November, compared with a 2.3% decline in October.
- Average house prices in the UK rose by 2.5% on an annual basis in November, higher than the increase of 2.0% in the year to October.

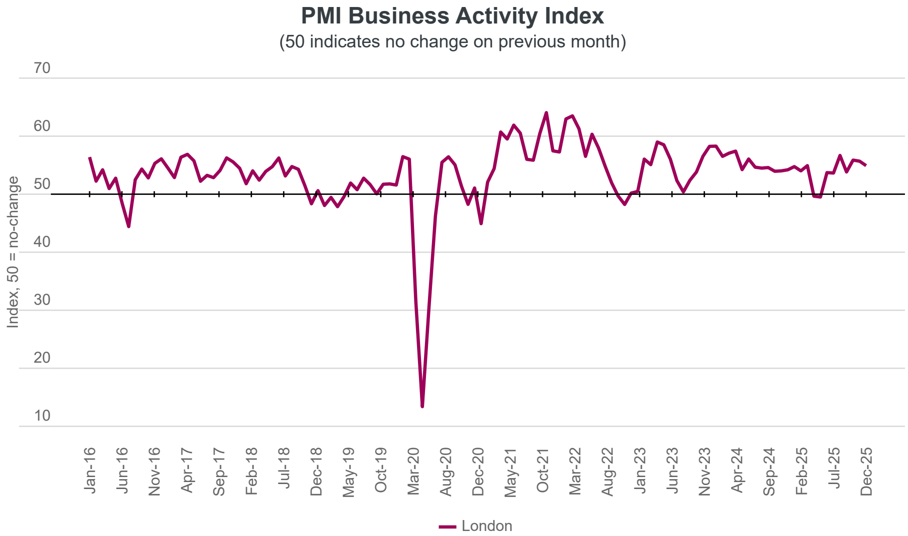
Source: Land Registry and ONS
Latest release: January 2026, Next release: February 2026



In December 2025, the sentiment of London's PMI business activity index moderated

- The business activity PMI index for London private firms slowed from 55.7 in November to 54.9 in December 2025.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

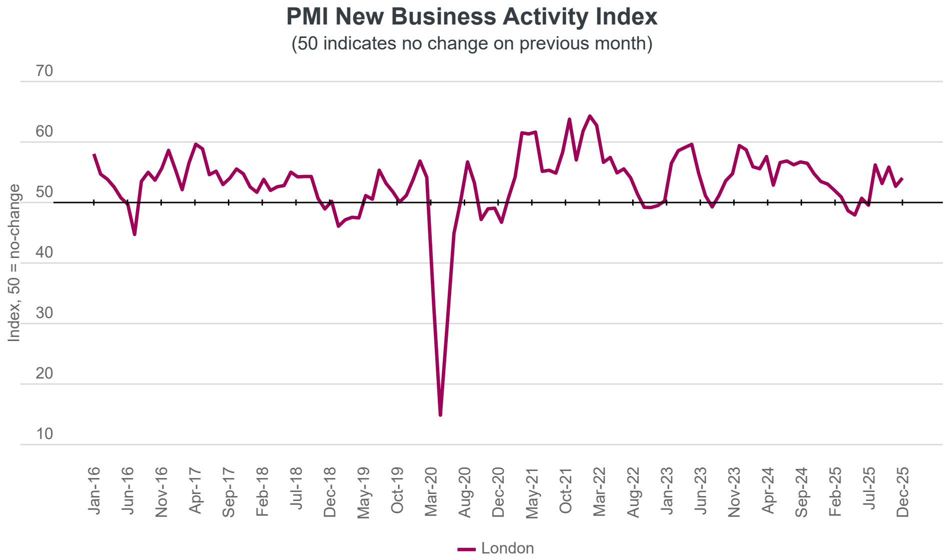
Source: IHS Markit for NatWest
Latest release: January 2026, Next release: February 2026



In December 2025, the sentiment of London's PMI new business activity increased

- In 2025, the PMI new business index in London increased from 52.7 in November to 54.0 in December.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

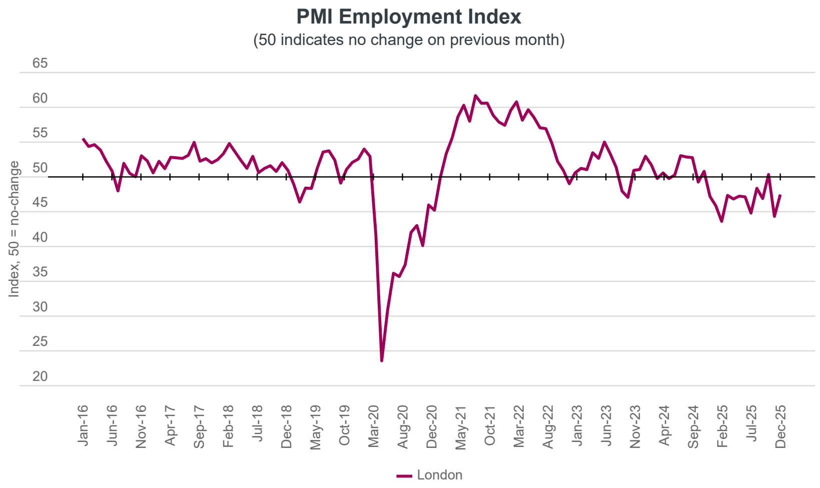
Source: IHS Markit for NatWest
Latest release: January 2026, Next release: February 2026



In December 2025, the sentiment of the PMI employment index in London improved but remained in contraction

- In 2025, the Employment Index for London increased from 44.3 in November to 47.5 in December.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

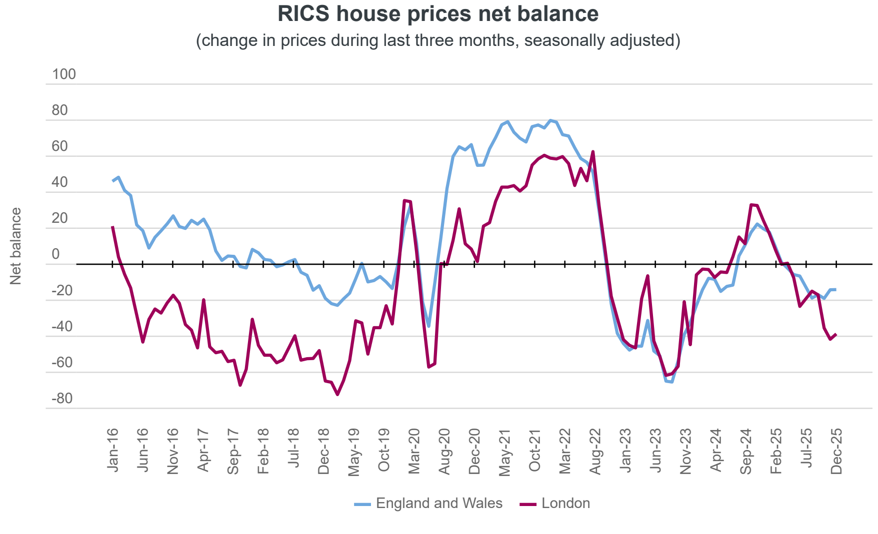
Source: IHS Markit for NatWest
Latest release: January 2026, Next release: February 2026



More than half of all property surveyors in London reported house price decreases in December 2025

- In December 2025, more property surveyors in London reported falling prices than rising prices. The net balance index was -39, and it was -42 in November.
- In England and Wales, the RICS house prices net balance index remained unchanged at -14 in both November and December.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

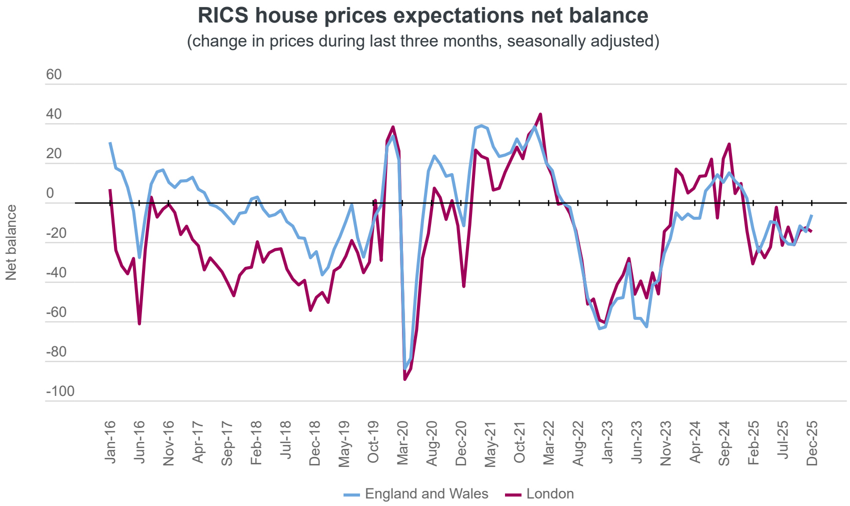
Source: Royal Institution of Chartered Surveyors
Latest release: January 2026, Next release: February 2026



In December 2025, less than half of all property surveyors expressed positive expectations for house prices in London over the next three months

- In 2025, the net balance of house prices expectations in London was -15 in December, a drop from -12 in November.
- The index for England and Wales was -6 in December, and was -14 in November.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

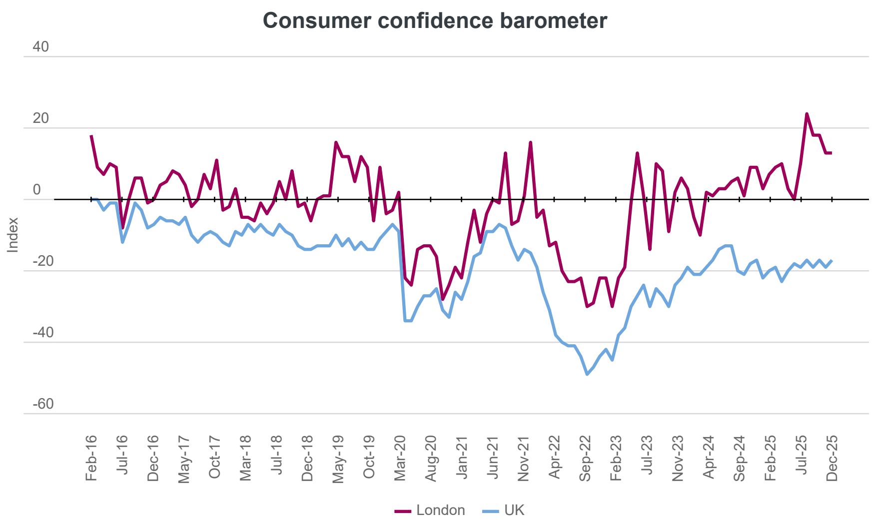
Source: Royal Institution of Chartered Surveyors
Latest release: January 2026, Next release: February 2026



Consumer confidence in London was unchanged in December 2025

- The consumer confidence index in London was 13 in December, unchanged from November.
- The sentiment for the UK improved from -19 to -17 over the two months. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people’s views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: January 2026, Next release: February 2026



Preview of London employment projections (2024-based update)

By **Yiqiao Chen**, Economist

GLA Economics has regularly updated trend-based long-term employment projections to inform policy making and city planning in London since 2002. A forthcoming publication will support the evidence base for the next London Plan, updating results to take into account changes in the outlook since the last London Plan evidence was published in 2017 and an interim update in 2022.

This supplement article previews the main assumptions and results.

About the projections

This update uses data available up to the end of 2024. It presents estimates of the number of jobs in London from 2025 to 2050, broken down by industry sector and local authority.[1] The full report presents a central (baseline) projection, sensitivity scenarios, and comparisons with alternative estimates to support interpretation.

The projections are designed to provide a guide to the long-run path of employment based on the data available at the time of construction. They are not intended as forecasts for individual years within the projection period.

Headline results

The 2024-based update indicates that:

- Workforce jobs across London will grow from 6.4 million in 2024 to 7.3 million in 2050, an additional 869,000 jobs, or 13.6% (Figure A1). This represents a higher level of projected employment than in the 2017 and 2022 projection rounds, largely reflecting a higher post-pandemic starting point rather than faster long-run growth.

1 This supplement focuses on the headline London and industry sector results. At the time of writing, local authority-level results are not available.

- London's labour market will continue to be shaped by the long-term structural shift towards business services, with Professional, Scientific, Technical and Real Estate activities (+373,000 jobs from the 2024 level) and Information and Communication (+164,000) accounting for around half of the projected increase between 2024 and 2050 (Figure A2).
- Four sectors are projected to see declines over the projection period: Manufacturing (-37,000 jobs), Transportation and Storage (-34,000), Wholesale (-32,000), and Retail (-32,000). This is due to a combination of slower growth overall in London and the decline in the relative growth rates of these sectors over recent periods.

All long-term projections are subject to uncertainty. Sensitivity analysis suggests that the central projection sits within a plausible range of outcomes and is consistent with population-based employment projections and other benchmarks.

Figure A1: London's historical and projected employment (000s), 1971-2050

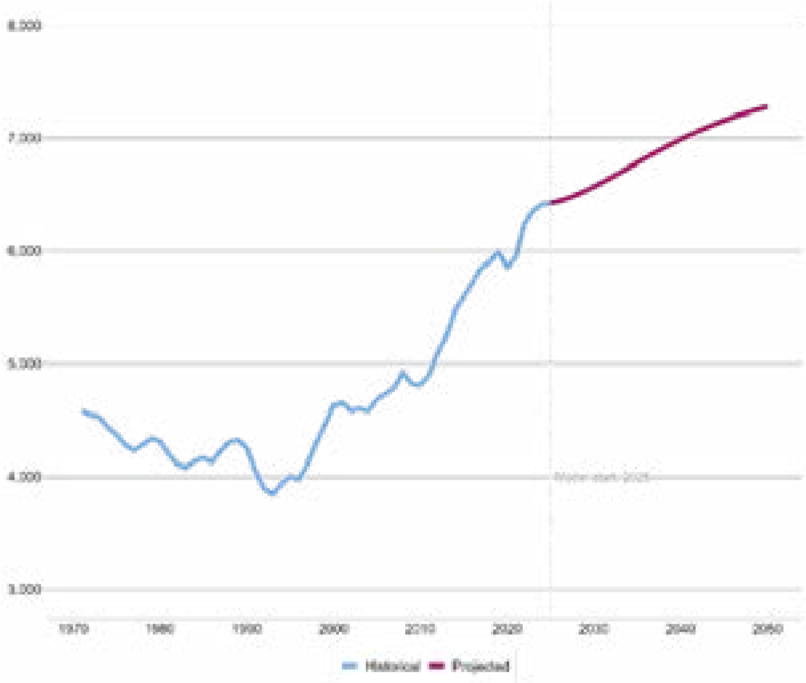
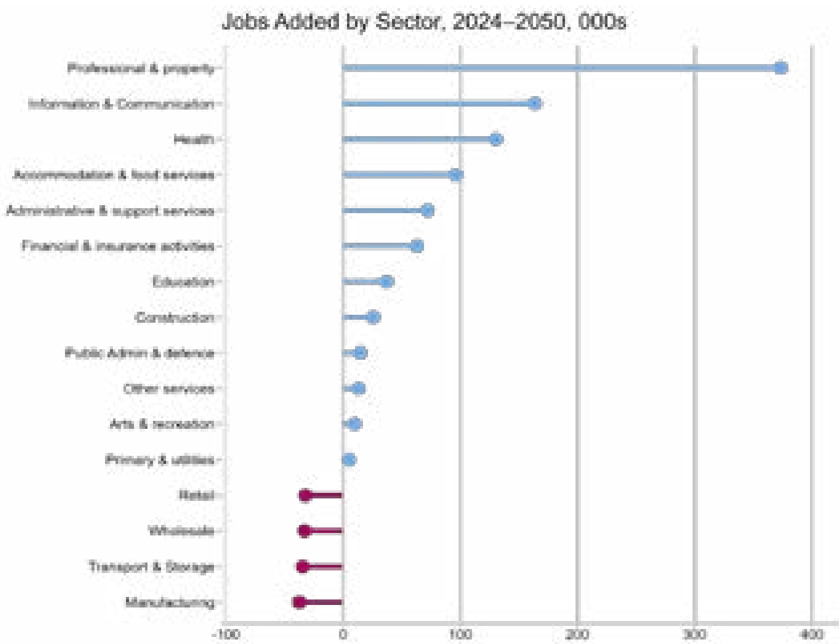


Figure A2: Employment projections for London sectors, % increase, 2024-2050



This report has been prepared based on historical data and in advance of any separate analysis of the impact of the 2024 National Planning Policy Framework and the Government's standard method for calculating housing need.

Under that framework, London has an indicative housing need for 88,000 homes a year at the time of writing. The South East region, from which around 1 million people commute to work in London, has an indicative housing need figure of 71,000 homes a year, and the East of England has an indicative housing need figure of 45,000 homes a year.

These housing need figures are significantly above historic delivery rates. If they were met, they could support a higher level of workforce jobs in London than is projected in this report. However, this would only occur if higher housing delivery led to higher net migration to London or its commuter belt.

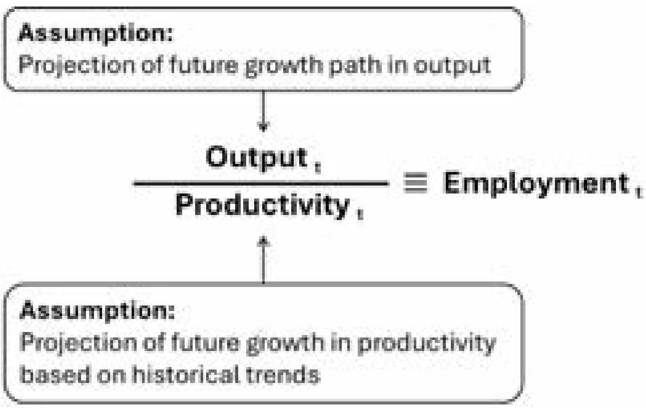
If housing delivery in the rest of the country instead made housing relatively more affordable outside London, and/or raised productivity and job opportunities in those areas, the number of workforce jobs in London could be lower than projected.

The implications of future housing delivery for workforce jobs in London will be considered alongside other London Plan evidence in subsequent analysis.

Methodology and key assumptions

Our employment projections are based on historical trends of labour productivity in London (measured by output per job). Projected job numbers are calculated using assumptions of economic growth rates and productivity growth rates (Figure A3).

Figure A3: Schematic of methodology



In line with the previous updates, the GVA growth assumptions are guided by the UK Office for Budget Responsibility (OBR) long-term economic determinants, published alongside its Economic and Fiscal Outlook (EFO) of March 2025.[2] The OBR's UK forecasts provide a consistent reference point for medium-term GVA assumptions to 2030 and long-term assumptions to 2050.

GVA input assumptions

While London GVA grew faster than UK GDP up to the mid-2010s, growth rates have been near identical since 2014. Given wider shifts since the financial crisis – including slower productivity growth and reduced projected growth in labour supply – it is reasonable to assume London will broadly align, rather than outperform, the UK over the long term, albeit from a higher base and without significantly underperforming.

2 The projection models are based on the data available at the time of construction (August 2025 in this update). The March 2025 EFO was the latest update.

For the very short-term (2024-2025) we use estimates from London's Economic Outlook (LEO) published by GLA Economics in Spring 2025.

Together, these assumptions imply GVA growth of 1.2% in 2024, rising to 1.6% in 2025 (as in LEO Spring 2025), reaching around 2.0% in the 2030s (in line with the OBR EFO March 2025). It then gradually declines to 1.7% by 2050 (following the OBR's long-term economic determinants).

Overall, the cumulative level of GVA growth from 2025-2050 in London implied by our assumptions is the same as that implied for the UK by the OBR.

Productivity trend assumptions
As in previous rounds of projections, we first identify historic productivity trends in London and then combine trends representing more recent experience with the longer-run outcomes.

Labour productivity in London has suffered from over a decade of low growth following the global financial crisis in 2008-09. Productivity growth during this period has also lagged behind the rest of the UK. Before the crisis, productivity growth trend was strongly positive from the 1980s onwards.

We combine our estimate of the historical long-term (1981-2007) growth rate of 2.8% per year with our estimate of the short-term (2008-2023) growth rate of minus 0.3% per year. Using a 55/45 weighting – placing more weight on recent experience than in earlier publications – we assume productivity growth of 1.4% per year from 2025 onwards.

The 1.4% productivity growth rate is just below the OBR's Spring 2025 long-term UK labour productivity assumption and is in line with our previous rounds of long-term employment projections. It reflects a balance between stronger pre-2008 performance and weaker post-crisis outcomes.

Further details

This supplement provides an overview of our forthcoming long-term employment projection. Full details of the results and methodology will be published later in the year.

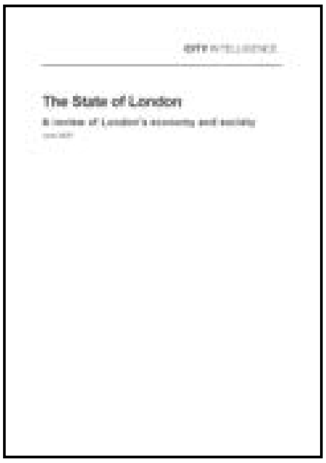
Our latest publications

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

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

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

View all the GLA Economics publications on our website.



The State of London - June 2025
One of our key annual publications, the sixth edition of the State of London report by City Intelligence brings together a wide range of outcome data relevant to the work of the Mayor, the London Assembly and other stakeholders, and measures how London is performing based on the most recent available data.

Download the full publication.

Housing Affordability and Economic Productivity
This study estimates the relationship between housing affordability and productivity. Using data from all local authorities in the Greater Southeast Region of England between 2002 and 2021 and by applying econometric methods, the study finds that declining housing affordability has had a significant negative effect on London's economic productivity.

Download the full publication.

London's Economic Outlook: Autumn 2025
London's real Gross Value Added (GVA) is forecast to grow by 1.9% in 2025, 1.7% in 2026, and 2.1% in 2027.
London's Workforce jobs (WFJ) are projected to increase by 0.9% in 2025, 1.1% in 2026, and 1.2% in 2027.
Household spending is expected to rise by 0.6% in 2025, 2.0% in 2026, then 1.9% in 2027.
Household income is expected to grow by 2.1% in 2025, 1.5% in 2026, and 1.3% in 2027.

Download the full publication.

GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

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

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

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

Images

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

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

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

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

MAYOR OF LONDON