

London's Economy Today

Issue 282 | February 2026

UK GDP grows sluggishly at the end of the year

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

Data published this month by the Office for National Statistics (ONS) showed that the UK economy continued to grow at the end of 2025. Output increased by 0.1% in Q4 2025 after also growing by 0.1% in Q3 2025 (Figure 1). This rate of growth was slower than the average expected from surveyed analysts who had anticipated the economy to grow by 0.2%.

On an annual basis GDP is estimated to have grown by 1.3% in 2025 as a whole, slightly faster than the 1.1% annual growth seen in 2024.

Looking at the major sectors of the economy the ONS observes that the services sector, an important sector for London, did not grow in the final quarter, while the construction sector fell by 2.1%. However, the production sector saw growth of 1.2%.

Compared to the same quarter a year earlier GDP is 1.0% higher. But real GDP per head contracted for the second quarter in a row with it declining by 0.1% after falling by the same amount in Q3 2025. Still compared to the same quarter a year earlier GDP per head was 0.6% higher and is estimated to have increased by 1.0% in 2025 as a whole, following no growth in 2024.



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Datastore

The main economic indicators for London are available to download from the [London Datastore](#).

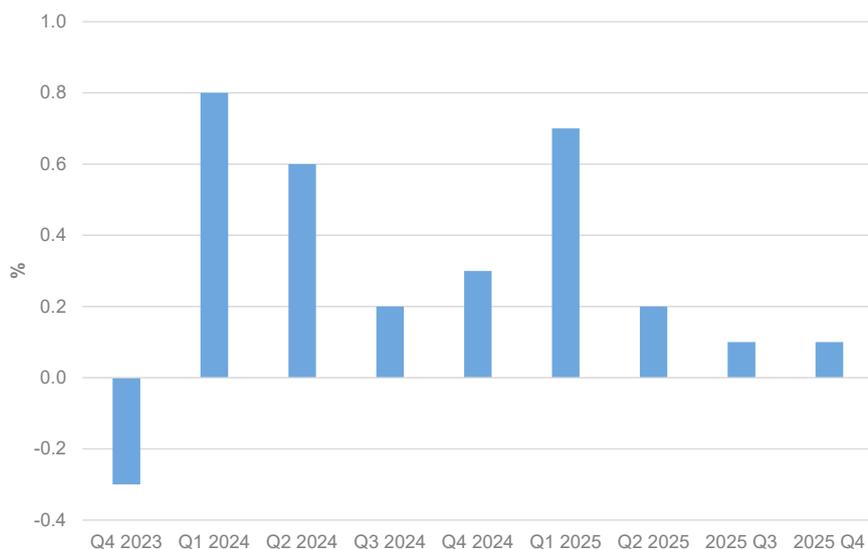


Figure 1: UK real quarterly GDP growth, Q4 2023 to Q4 2025

Source: ONS

UK inflation falls back sharply in January

The ONS also published data on January's [Consumer Price Index \(CPI\) inflation](#) this month. This showed that CPI inflation slowed to 3.0% in the 12 months to January 2026; down from 3.4% in December 2025 (Figure 2). This was in line with the estimations of most surveyed economists who had expected it to fall to this level. Inflation remains above the Bank of England's target of 2% but is now just within the margin for fluctuation of $\pm 1\%$ around this central symmetrical target.

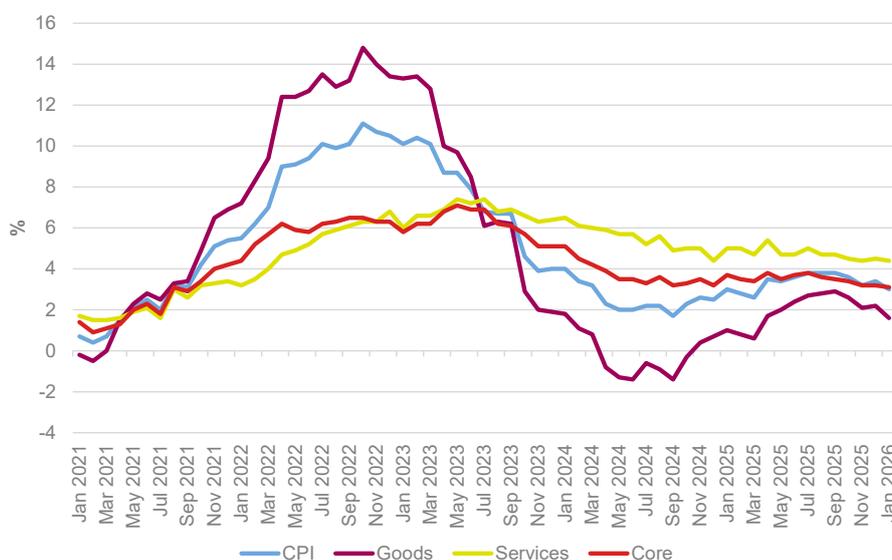


Figure 2: CPI, goods, services and core annual inflation rates, UK, January 2021 to January 2026

Source: ONS, GLA Economics

Looking at the data in more detail the ONS noted that “transport, and food and non-alcoholic beverages made the largest downward contributions to the monthly change”. UK inflation however remains above that seen in other countries with the ONS observing that “the UK’s CPI inflation rate of 3.0% was higher than that of Germany (2.1%) and France (0.4%) in January. 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 dropped back. Core CPI (excluding volatile energy, food, alcohol and tobacco prices) inflation stood at 3.1% over the year to January 2026, down from 3.2% in December 2025. The CPI goods annual rate slowed to 1.6%, down from 2.2%. And the CPI services annual rate slowed slightly to 4.4% in January down from 4.5% in December.

While in forward looking inflation and cost of living news household energy costs are set to fall with Ofgem announcing a decrease in the energy price cap from April. The new cap will mean a typical annual household energy bill for a dual-fuel customer paying by direct debit will cost £1,641, a decrease of £117, or 7%, from the current level.

Bank of England holds interest rates at 3.75% while expecting inflation to soon hit target

The Bank of England's Monetary Policy Committee (MPC) [voted 5–4](#) to hold the Bank Rate at 3.75% in February, with four members preferring an immediate cut to 3.5%. The accompanying [Monetary Policy Report](#) marks a notable shift in tone: the balance of risks has moved away from persistent inflation towards weaker demand.

The MPC expects [CPI inflation](#) to fall to 2.1% by Q2 2026 – a 0.7 percentage point (pp) revision downwards from November's forecast. Much of that reflects the energy bills package announced in Budget 2025, which alongside falling wholesale gas prices will bring the Ofgem price cap down in April. Governor Bailey noted that “we now expect inflation to be back to our 2% target this spring”. On pay, they stated that private sector earnings growth has already slowed and is projected to ease further by mid-2026. The growth picture is also subdued. Underlying GDP growth was low in Q4 2025, with a modest pickup to 0.2% expected in Q1. The unemployment rate has risen to just over 5%, and the MPC now sees a wider [output gap](#) (the difference between actual and non-inflationary GDP) than it projected in November.

Dissenting MPC members pointed to cumulative forecast revisions over the past year delivering consistently lower inflation paths than previously expected, while the majority cautioned that forward-looking wage indicators remain above rates consistent with the 2% target. The path for the Market-implied rate (inferred from interest rate futures and swaps) suggest the Bank Rate will be a little above 3.3% by late 2026, implying two or three further rate cuts.

UK FDI is strong, but growth gains depend on project delivery claims new report

A [new report from McKinsey](#) argues that delivered foreign direct investment (FDI) can help support UK growth and create wider productivity gains across the economy. It places this in the context of the UK's longer-term challenges: weak productivity growth, low investment, and limited capital deepening, which have all weighed on economic performance.

A key point in the report is its measurement approach. It focuses on announced greenfield FDI (new projects that add productive capacity), rather than total FDI flow data. The report uses this measure because it is more forward-looking, but it also clearly notes the limitation: announced projects can be delayed, scaled back, or cancelled, so announcements are not the same as completed investment.

The report finds that the UK remains one of the world's top destinations for announced greenfield FDI, with inflows significantly above pre-pandemic levels. However, it also shows that UK FDI is highly concentrated in clean energy and communications/software (including AI-related digital infrastructure such as data centres), with a growing share coming from very large “megadeals.” This reflects real strengths, but also creates risks if a small number of major projects fail to progress.

Overall, the report concludes that FDI should be treated as a “seed” for growth, not a complete solution. To maximise the benefit, the UK must improve delivery conditions, especially planning, permitting, grid access, and policy consistency, while also ensuring domestic firms, workers, and supply chains benefit from technology adoption and spillovers. In short, the report says the UK is strong at attracting investment, but the bigger challenge is converting it into broad-based, sustained growth.

US Supreme Court tariff ruling leaves UK facing a tougher deal

The US Supreme Court has [struck down](#) the administration's use of the International Emergency Economic Powers Act (IEEPA) to impose "reciprocal" tariffs. The [6-3 ruling](#) removes the legal basis for much of the country-specific tariffs introduced last year. The [Yale Budget Lab estimates](#) the ruling reduces the overall US effective tariff rate from roughly 16% to 9%, while the [Tax Foundation estimates](#) that over \$160bn in tariffs collected under IEEPA may now be subject to refund claims - though the Court did not rule on refunds. Following the ruling, the Trump administration [invoked Section 122](#) of the Trade Act of 1974, initially imposing a 10% blanket tariff on products from all countries, before [raising the rate to 15%](#).

The ruling has left the UK in a weaker relative position. Under IEEPA and [the Economic Prosperity Deal](#), the UK had effectively locked in a 10% baseline tariff on most goods, alongside carveouts for the automotive sector and other industrial products. The new flat 15% rate leaves the UK facing higher effective rates, although further adjustments using other, longer-lived US trade powers are expected to follow. For now, the 15% Section 122 tariff functions as a temporary bridge, but the medium-term aim is likely to restore similar terms to those previously negotiated. US Treasury Secretary Scott Bessent has [stated](#) that eventual replacement measures will yield "virtually unchanged tariff revenue in 2026".

London's unemployment rate rises

Labour market data published this month by the ONS continued to show a weakening of both the London and UK labour markets with them both recording their highest rates of unemployment in five years. This was offset to some extent by economic activity rates edging down. These changes left the employment rate in London at its lowest level since October 2023. In more detail London's unemployment rate was estimated at 7.6%, an increase on the quarter and an increase of 1.5pp from a year earlier. The UK average was 5.2%. The employment rate in London was estimated at 73.7% for the three months ending December 2025, a decrease of 0.6pp on the same period in the previous year, and a decrease on the quarter. London's employment rate was slightly lower than the UK average (75.0%).

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

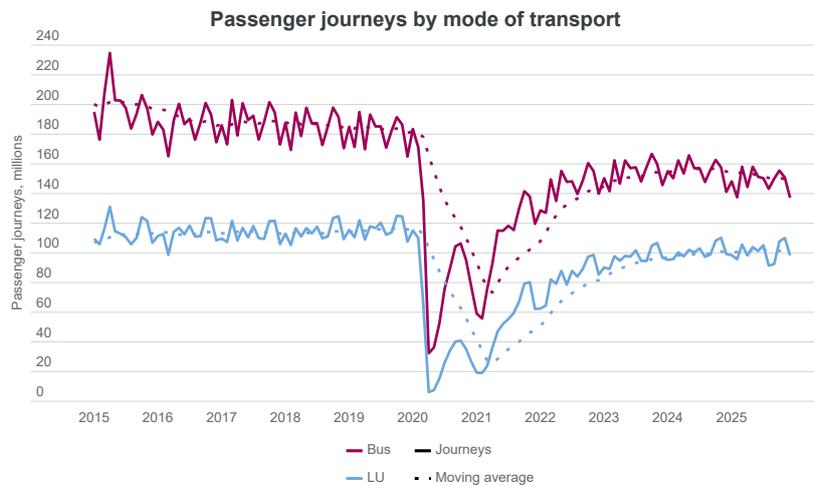
Economic indicators

The underlying trend in passenger journeys on London public transport decreased in December 2025

- In 2025, 235.5 million passenger journeys were registered in December, 25.4 million less than in November
- In the latest period, 98.3 million of all journeys were underground journeys and 137.2 million were bus journeys.
- The 13-period moving average in the total number of passenger journeys fell from 251.2 million in the previous period to 248.7 million in the latest period.

Source: Transport for London

Latest release: February 2026, Next release: March 2026

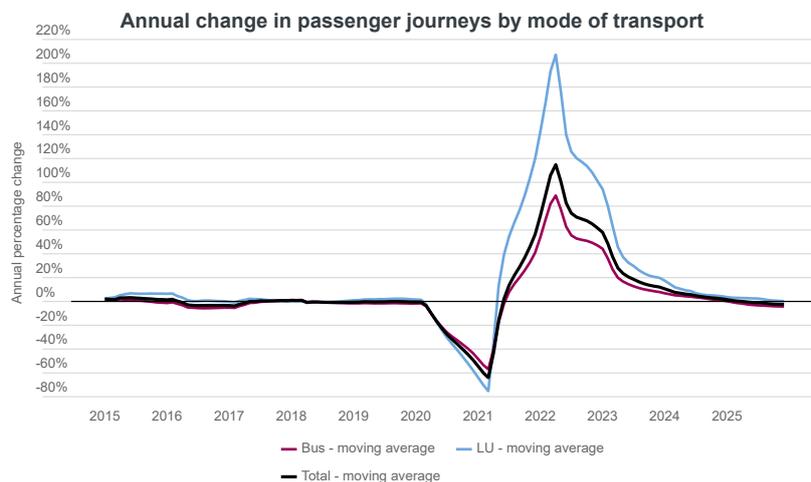


Annual growth in passenger journeys weakened

- In 2025, the 13-period moving average annual growth rate in the total number of passenger journeys weakened further, from a decline of 2.3% in November to a decline of 2.5% in December.
- The moving average annual growth rate of bus journeys weakened from a decline of 4.2% in November to a decline of 4.3% in December.
- The moving annual average growth rate of underground passenger journeys remained positive but eased from 1.9% in November to 1.2% in December.

Source: Transport for London

Latest release: February 2026, Next release: March 2026

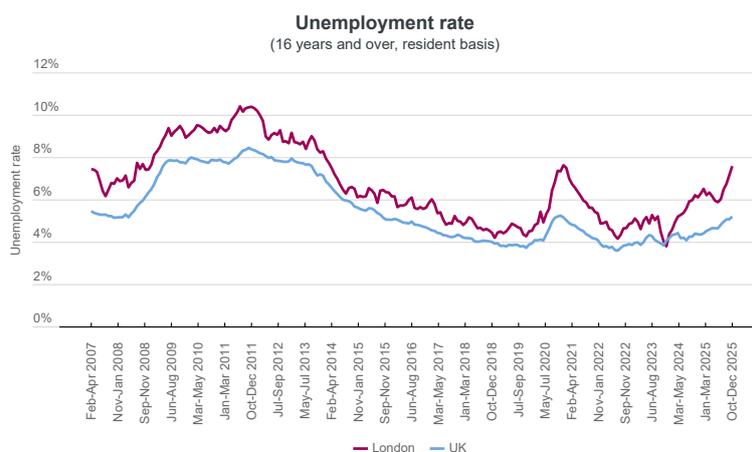


London's unemployment rate increased over the last quarter

- Around 398,000 residents aged 16 and over were unemployed in London in the period from Oct - Dec 2025.
- The unemployment rate in London for that period was 7.6%, a significant increase from 6.5% in the previous quarter (July – September).
- The UK's unemployment rate increased slightly to 5.2% in Oct - Dec 2025, up from 5.0% 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: February 2026, Next release: March 2026

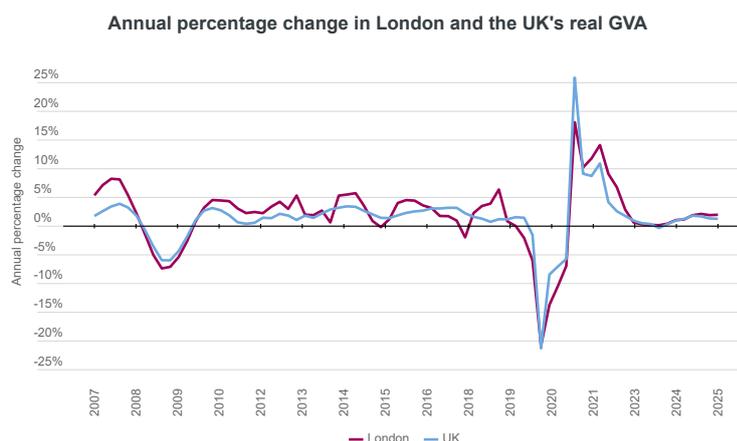


London's economy continues to expand through Q3 2025

- 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

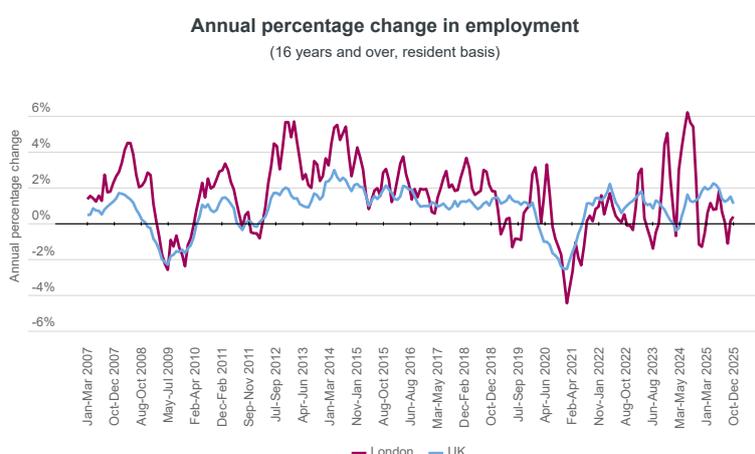


London's year-on-year employment growth rate rose in the quarter to December 2025

- Around 4.8 million London residents aged 16 and over were in employment during the three-month period from October to December 2025.
- London's annual change in employment increased by 0.4% in the year to this quarter, compared with the 0.1% growth in the quarter leading up to September.
- Employment in the UK as a whole grew by 1.1% in the year to this quarter, a slight decrease from the 1.2% 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: February 2026, Next release: March 2026

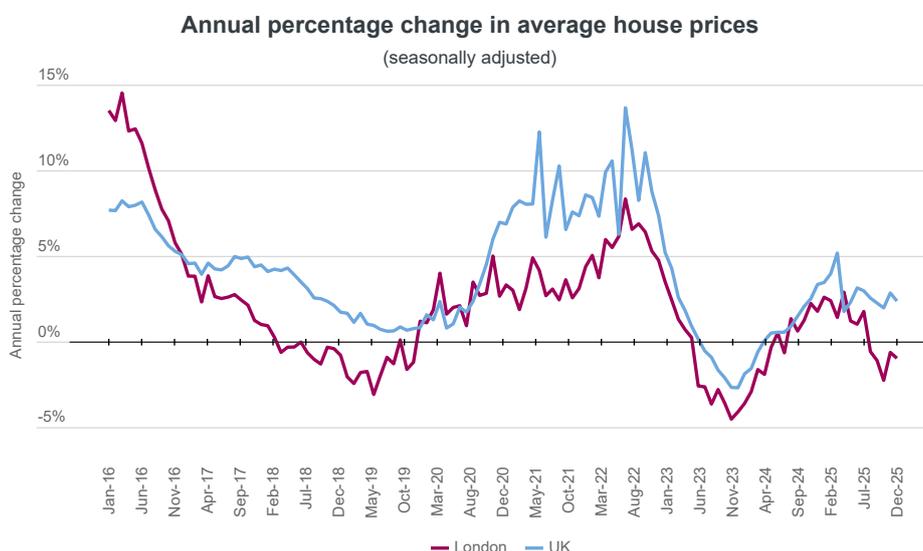


On an annual basis house prices fell in London in December 2025

- In December 2025, the average house price in London was £554,000 while in the UK it was £270,000.
- Average house prices in London fell by 0.9% year-on-year in December, compared with a 0.6% decline in November.
- Average house prices in the UK rose by 2.4% on an annual basis in December, lower than the increase of 2.9% in the year to November.

Source: Land Registry and ONS

Latest release: February 2026, Next release: March 2026

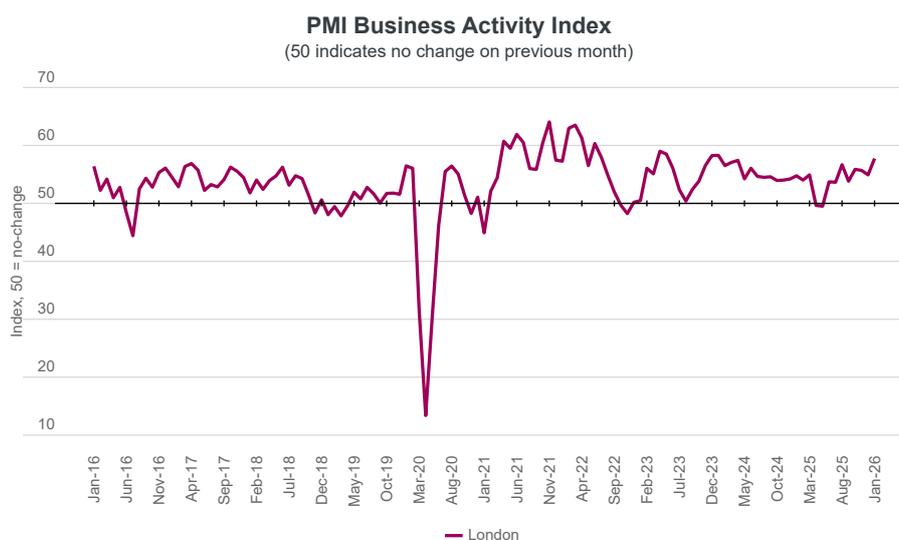


In January 2026, the sentiment of London's PMI business activity index increased

- The business activity PMI index for London private firms increased from 54.9 in December 2025 to 57.7 in January 2026.
- 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: February 2026, Next release: March 2026

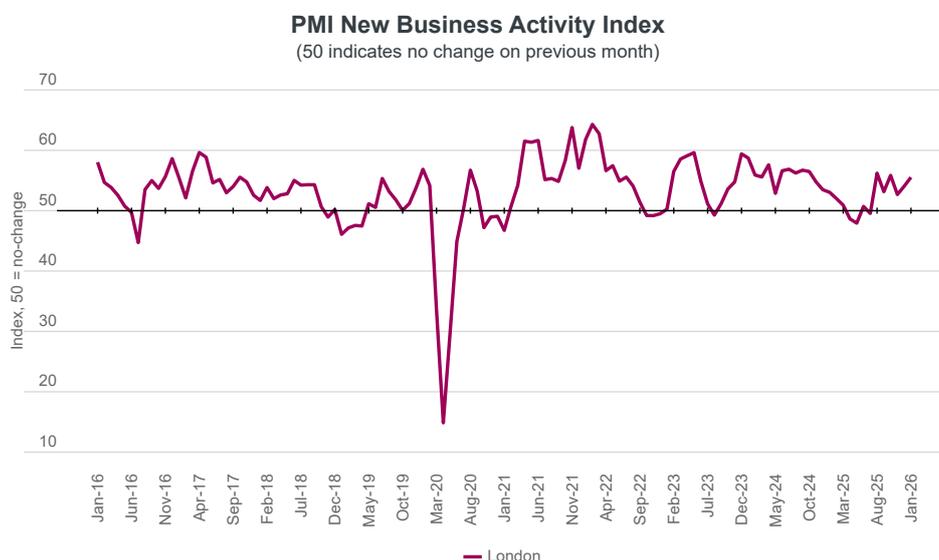


In January 2026, the sentiment of London's PMI new business activity increased

- The PMI new business index in London increased from 54.0 in December 2025 to 55.5 in January 2026.
- 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: February 2026, Next release: March 2026



In January 2026, the sentiment of the PMI employment index in London moderated

- The Employment Index for London decreased from 47.5 in December 2025 to 45.7 in January 2026.
- 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: February 2026, Next release: March 2026

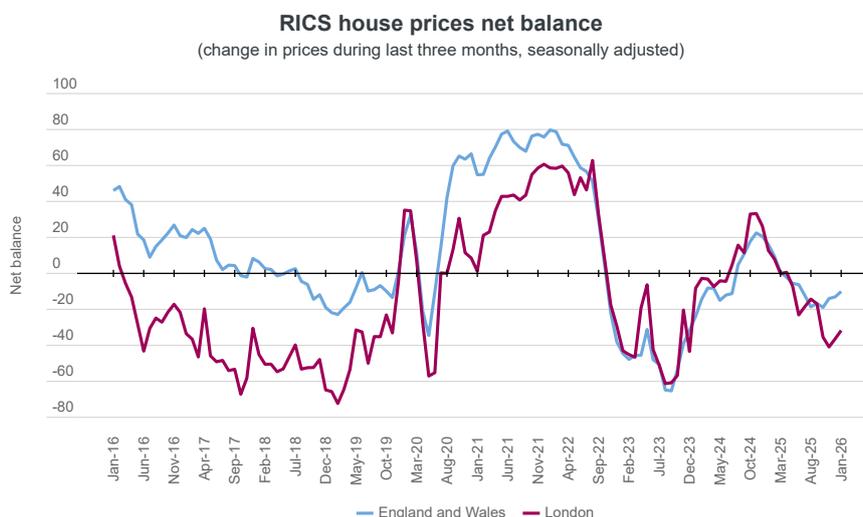


More than half of all property surveyors in London reported house price decreases in January 2026

- In January 2026, more property surveyors in London reported falling prices than rising prices. The net balance index was -32, and it was -36 in December 2025.
- For England and Wales, the RICS house prices net balance index improved from -13 in December 2025 to -10 in January 2026.
- 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: February 2026, Next release: March 2026

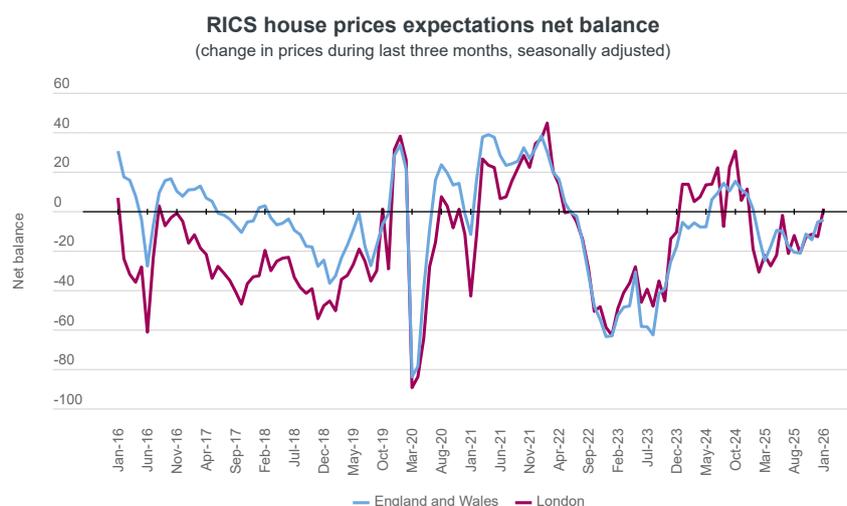


In January 2026, over half of all property surveyors expressed positive expectations for house prices in London over the next three months

- The net balance of house prices expectations in London was 2 in January 2026, improving sharply from -13 in December 2025.
- The index for England and Wales was -4 in January 2026, and was -5 in December 2025.
- 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: February 2026, Next release: March 2026

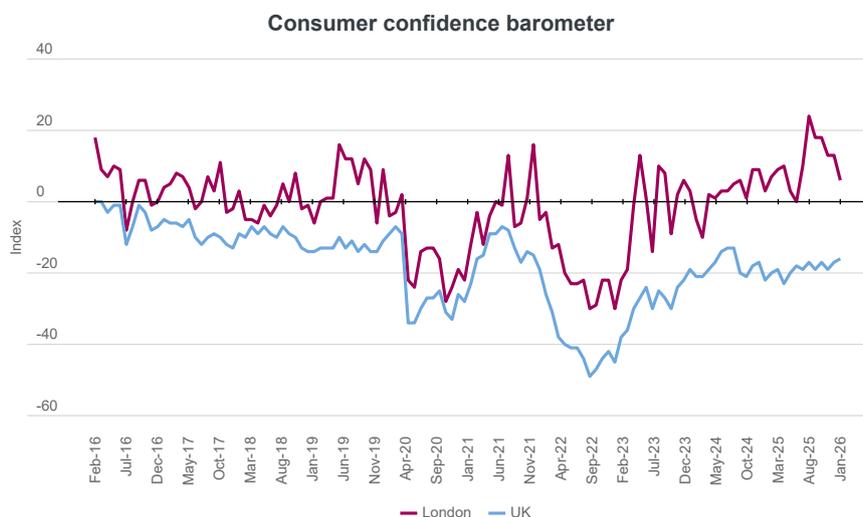


Consumer confidence in London dropped in January 2026

- The consumer confidence index in London was 6 in January 2026, and it was 13 in December 2025.
- The sentiment for the UK improved slightly from -17 to -16 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: February 2026, Next release: March 2026



The Green Book 2026: updates following the 2025 review

By **Simon Webster**, Economist



Public investment decisions across the United Kingdom are underpinned by HM Treasury's Green Book, the government's guidance on appraisal. In January 2025 the Chancellor announced a review of the Green Book and how it is being applied in practice. The review culminated in the publication of *Green Book Review 2025: Findings and actions*¹ and was followed by a revised edition of the Green Book in early 2026.

This article summarises the background to the review, explains the core changes introduced in 2026, and considers the implications for London and for appraisal practice within the Greater London Authority (GLA).

What is the Green Book?

The Green Book is the UK government's guidance on appraisal: the process of assessing the costs, benefits and risks of different options for achieving government objectives. It does not set policy objectives and it does not make decisions. Rather, it provides a structured framework to help officials give objective and evidence-based advice to ministers and other decision makers.

Appraisal is part of, what the Treasury terms, the wider ROAMEF policy-making cycle: rationale, objectives, appraisal, monitoring, evaluation and feedback. The Green Book focuses primarily on the early stages, ensuring that a proposal has a clear case for change, defined objectives and a transparent comparison of options.

In practice, the Green Book underpins the economic and strategic cases within the Five Case Model used for business cases across central government and, increasingly, in local and regional government.

The Green Book guidance is mandatory for central government departments and arm's length bodies and is widely adopted by devolved administrations and local authorities. For London, it shapes the analytical standards expected in appraisals of transport, housing, regeneration, skills and environmental interventions.

¹ HMT (2025), '[Green Book Review 2025: Findings and actions](#)'.

Why was the Green Book reviewed in 2025?

The 2025 review was initiated against a backdrop of long-standing debate about whether public investment appraisal adequately supports growth across different parts of the country. Stakeholders from local and regional government, academia and the private sector raised concerns about both the content of the guidance and its application in practice.

The review identified six major issues:

- 1 Continued over-emphasis on benefit-cost ratios (BCRs) in decision making.
- 2 Overly long and complex guidance.
- 3 Capacity and capability gaps across the public sector.
- 4 Limited transparency of business cases.
- 5 Insufficient emphasis on place-based objectives.
- 6 Challenges in assessing transformational change.

Importantly, the review did not find conclusive evidence that the Green Book's underlying methodology was regionally biased. However, it concluded that improvements were needed in how appraisal frameworks reflect place-based objectives, long-term transformation and proportionality. It also announced an independent review of the discount rate to ensure the fair assessment of long-term benefits arising from transformational investments.

The 2025 findings therefore signalled reform in emphasis and application rather than a rejection of welfare-based cost-benefit analysis.

What has changed in the 2026 Green Book?

The 2026 edition of the Green Book reflects the actions taken by the Treasury to address the issues identified in the 2025 review. While its analytical foundations remain consistent with previous editions, several important clarifications and practical improvements have been introduced.

Clarifying what 'value for money' means

The updated Green Book places renewed emphasis on what is meant by value for money. It makes clear that value for money is a balanced judgement about the optimal use of public resources to achieve objectives. It is not determined by a single headline metric.

In particular, the guidance reinforces that decision makers should consider:

- Monetised social costs and benefits
- Non-monetised impacts
- Risk and uncertainty
- Distributional effects
- Public sector financial impact

This clarification addresses concerns raised during the review that appraisal outcomes were sometimes interpreted too narrowly. The revised guidance reiterates that monetised results are an important part of the evidence base, but they do not in isolation determine whether a proposal represents value for money.

Clarifying the role of benefit–cost ratios

Closely linked to the value for money clarification is a more explicit statement on the role of benefit–cost ratios (BCRs). The 2026 Green Book confirms that allocating funding solely on the basis of BCRs, or applying arbitrary BCR thresholds, is not appropriate.

BCRs are summary indicators designed to support judgement. They help to compare options on a consistent basis, but they are not decision rules. A proposal with a lower BCR may still represent value for money where there is strong wider justification, including significant non-monetised benefits, distributional considerations or strategic alignment.

This reinforces the principle that appraisal is designed to inform balanced decision making rather than to generate mechanistic rankings.

Improving how information is presented to decision makers

The revised Green Book also improves the way appraisal results are presented. Clearer appraisal summary tables bring together the full range of impacts of different options in a single structured format.

By presenting these dimensions together, the guidance supports more transparent communication of trade-offs. This change responds directly to feedback from the review that decision makers require a clearer view of the overall picture rather than isolated technical outputs.

Streamlining and clarifying the guidance

A further outcome of the review is a substantial simplification of the document itself. Stakeholders highlighted that the previous Green Book had become lengthy and difficult to navigate.

The 2026 edition is shorter (by about 40%, according to the Treasury) and has been reorganised to improve clarity and accessibility. Concepts are explained more directly, duplication has been removed and the structure has been simplified.

This streamlining is not meant to be a reduction in analytical standards but rather a way to make the guidance easier to apply consistently across the public sector. For practitioners, this should reduce unnecessary complexity while retaining rigour.

What's still to come

While the 2026 Green Book incorporates several clarifications and usability improvements, some of the issues identified in the 2025 review are the subject of further work.

Place-based analysis

The review highlighted concerns that appraisal frameworks may not always adequately reflect place-based objectives. Although the 2026 Green Book reiterates the importance of distributional and spatial analysis, it does not introduce major new guidance in this area.

Instead, HM Treasury has committed to further research and pilot exercises, including the development of place-based business cases with partners in Plymouth, Birmingham, Liverpool and Port Talbot. These pilots are intended to explore how appraisal can better assess packages of interventions and the cumulative effects of coordinated investment within particular areas.

The outcomes of this work are expected to inform future updates to the guidance.

Transformational change

Similarly, while the revised Green Book acknowledges the challenge of assessing transformational change, it does not introduce new quantitative techniques for capturing such effects. The existing framework continues to require a clear theory of change and robust evidence where claims of wider economic or systemic impact are made.

Further analytical work and consultation are planned to improve the treatment of transformational programmes, particularly where impacts are long-term, system-wide and subject to significant uncertainty.

Discount rates

The 2025 review also announced an independent review of the Green Book discount rate. The 2026 Green Book retains the existing Social Time Preference Rate pending the outcome of that review.

Discount rates play a central role in determining the present value of long-term costs and benefits. This is particularly relevant for infrastructure, decarbonisation and resilience investments, where benefits accrue over extended periods.

The independent review is intended to ensure that the treatment of long-term and intergenerational impacts remains appropriate. Any changes arising from that work would be expected to follow consultation and formal update of the guidance.

Implications for London and GLA Economics

The 2026 Green Book does not alter the fundamental analytical framework used in London. However, it sharpens expectations in several areas that are directly relevant to appraisal practice within the GLA Group, and for Green Book practitioners working in London.

First, the clearer articulation of value for money as a balanced judgement reinforces established practice within GLA and Transport for London (TfL). Appraisals undertaken for Mayoral programmes and investment decisions will continue to present monetised results alongside non-monetised impacts, risk analysis and distributional considerations. The updated guidance strengthens the case for ensuring that these elements are integrated and clearly explained rather than treated as an “add on” to a single summary metric.

Second, the clarification of the role of benefit–cost ratios supports a balanced approach to interpreting appraisal results. For London, where interventions frequently generate complex social, environmental and distributional impacts, the confirmation that BCRs are not mechanistic decision rules is important. It provides clearer national backing for appraisal practice that considers wider justification and context when advising decision makers.

Third, the improved structure of appraisal summary tables aligns with the need for transparent and accessible communication. Clear presentation of the full range of impacts is particularly important in a city as economically and socially diverse as London. Decision makers require a concise but comprehensive view of trade-offs, and the revised guidance supports this objective.

Finally, the streamlined format of the Green Book should make it more accessible for a wider group of practitioners across the GLA Group and partner organisations. Simplification of the document reduces ambiguity and supports more proportionate appraisal, particularly across programmes that involve multiple interrelated interventions.

The GLA is represented on the government's Green Book network steering group and, alongside TfL, actively participated in the Treasury's review and update of the guidance. The revised Green Book will be reflected in the advice, reviews and training provided by GLA Economics, ensuring that appraisal practice in London remains aligned with national standards while continuing to reflect the capital's specific economic and social context.

Conclusion

The GLA and TfL welcome the new edition of the Green Book and its simplified format. The new 2026 edition represents a positive evolution rather than a departure in UK appraisal practice. The core welfare-based framework remains in place, but with clearer emphasis on value for money and use of the BCR, proportionality and transparency.

Practitioners will await with interest the lessons learned from place-based business case pilots, the forthcoming guidance on transformational change, and the review of the discount rate. These could lead to more substantive changes in the way appraisal is undertaken in the capital.

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.

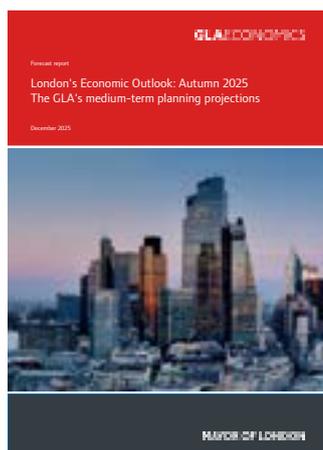
[Download](#) the full publication.



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.

City Hall
Kamal Chunchie Way
London E16 1ZE

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

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February 2026

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

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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.