London's Economy Today

UK economy appears to have avoided recession in 2022

By **Mike Hope**, Economist, and **Jasmine Farquharson**, Project Management Apprentice

First estimates from the Office for National Statistics (ONS) are that economic activity, or Gross Domestic Product (GDP), was flat in the final quarter of 2022. If this is confirmed by later estimates it would mean that the economy just avoided entering a technical recession of two successive quarters of decline after a fall of 0.3% in the third quarter. Despite this the broader picture is that the economy has flatlined at slightly below pre-pandemic levels of output through the whole of 2022 (Figure 1).

More worryingly output is estimated to have fallen by 0.5% in December. Output in the service sector as a whole fell by 0.8%, and by 1.2% in consumer facing services, reflecting reduced demand as the cost of living crisis increasingly takes hold.

Part of the decline in activity is due to the number of days lost to strikes. The ONS estimates that this was 843,000 days in December across the UK. This is the highest figure since November 2011, when there were strikes for better public sector pensions. The ONS reports that there was anecdotal evidence that rail strikes had negatively affected some businesses, particularly restaurants, caterers, hotels and bars. Units involved in car hire and land transport reported a corresponding increase in turnover. There was also anecdotal evidence that postal strikes had negatively affected some businesses, including

Also in this issue

Datastore

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

in financial planning, hospitality, computer repair, and management consulting. There were strikes as well by health workers, teachers, firefighters, civil servants, and other transport workers.

In its latest forecast, published in February, the Bank of England is expecting a shallow recession, and for output to fall by ½% in 2023, reflecting the effects of a rising tax burden and interest rates, falling wages after inflation, rising unemployment, and high energy prices. This is a better outlook than in their November forecast reflecting an improved assessment for consumption in the light of the strength of the labour market, as well as a decline in wholesale energy prices – by mid-February European natural gas prices had fallen to an 18-month low. In the medium-term, growth is expected to remain well below pre-pandemic rates.

The International Monetary Fund (IMF) in its latest forecast also expects the UK economy to shrink by 0.6% in 2023, the only economy in the G7 which it estimates to contract. The UK is also the only economy in the G7 not to have returned to pre-pandemic levels of output.

The cost of living crisis deepens

In contrast, the National Institute for Social and Economic Research (NIESR) is forecasting GDP growth of 0.2% in 2023, but that income per head will fall by 0.1%. The impact of higher prices is that 7 million UK households (1 in 4) may face energy and food bills that exceed their disposable income in 2023/24, up from around 1 in 5 in 2022/23. Household disposable incomes have fallen sharply since the beginning of the pandemic, between 18% for the lowest quintile and 9% for the top quintile.

Regional disparities are also widening. London is projected by NIESR to be 9% above its pre-pandemic level of output by the end of 2024, while other regions are expected to fall further behind. Despite this, polling by YouGov on behalf of the GLA finds that 17% of Londoners are 'financially struggling' and another 30% are 'just about managing'. The proportion 'financially struggling' is 5 percentage points higher than a year ago.

This month's figures from the ONS indicate that inflation continues to moderate, and wages in money terms are still rising, but wages after inflation are contracting. The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to January 2023, down from 10.5% in December 2022, and its recent peak of 11.1% in October. At the same time, growth in average total pay (including bonuses) was 5.9% and growth in regular pay (excluding bonuses) was 6.7% among employees in October to December 2022. For regular pay this is the strongest growth rate seen outside the period of the pandemic. Growth in total and regular pay adjusted for inflation for the same period fell by 3.1% for total pay, and 2.5% for regular pay. This is smaller than during the financial crisis, although the period of adjustment is more prolonged, and it is among the largest falls in growth since comparable records began in 2001 (Figure 2).

Figure 2: Percentage average weekly earnings annual growth rates after inflation in Great Britain, seasonally adjusted, January to March 2001 to October to December 2022

Source: ONS Monthly Wages and Salaries Survey
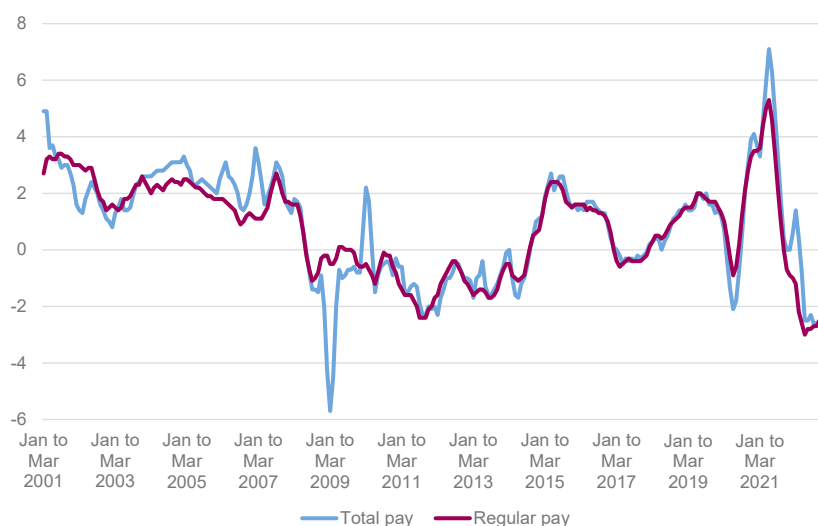
Pay increases have not been uniform across sectors. Average regular pay growth for the private sector was 7.3% in the last quarter of 2022, and 4.2% for the public sector. This is the largest growth for the private sector since the pandemic, led by the finance and business services sector at 7.4%, and construction at 6.1%.

Despite the adverse economic conditions it is too early to say that London's labour market is loosening. Both the number of payrolled employees and the unemployment rate ticked up. Payrolled employees are up by 172,000 (4.2%) over the year to January. The unemployment rate rose slightly on the quarter to December to 4.5%, and is now well above its May – August low of 4%. The GLA Economics London labour market update provides more information.

The Bank reports that both private sector regular pay growth and services CPI inflation have been notably higher than it forecast in November. As a result UK domestic inflationary pressures have been firmer than expected. In part to combat this the Monetary Policy Committee voted to increase interest rates by 0.5 percentage points to 4% in February. This is the tenth meeting in succession from December 2021 onwards when rates have risen from a low of 0.1%.

## Prospects improve for major economies

Lower than expected energy and fuel prices are helping major economies. The US economy grew faster than expected with 2.7% annual growth in the final quarter of 2022. Higher borrowing costs, though, are impacting on underlying demand as final sales to domestic purchasers, excluding government spending, only rose by 0.2% down from 1.1% in the third quarter. Milder weather and government support helped the Eurozone to grow by 0.1% between the third and fourth quarter of 2022 despite the predictions of economists of a downturn.

The IMF projects global growth of 2.9% in 2023, and 3.1% in 2024, down from 3.4% in 2022. The forecast for 2023 is 0.2 percentage points higher than estimated in October.

London loses out in distribution of levelling up funds

On Thursday January 19 the Department for Levelling Up Housing and Communities (DLUHC) announced the second round of Levelling Up Fund allocations. The fund, in total, is an additional £4.8 billion for the UK to support this agenda. This compares with a fall in revenue expenditure by English local authorities of 23% or £29 billion in 2019/20 prices between 2009/10 and 2019/20.

London had 8 successful bids with a value of £151 million out of 111 successful bids nationally for £2.1 billion. The capital's share of the total pot increased from 4% to 7% between the Round 1 and Round 2 bidding rounds, which remains below London's share of the UK population of 13%. The value of awards to London weighted by population remained the lowest of the countries and regions of the UK, and well below the national average (Figure 3). This is despite London having significant levels of deprivation – the capital has 12% of all neighbourhoods (Lower Super Output Areas) in the bottom quintile of the distribution for England, and 15% of all English neighbourhoods.
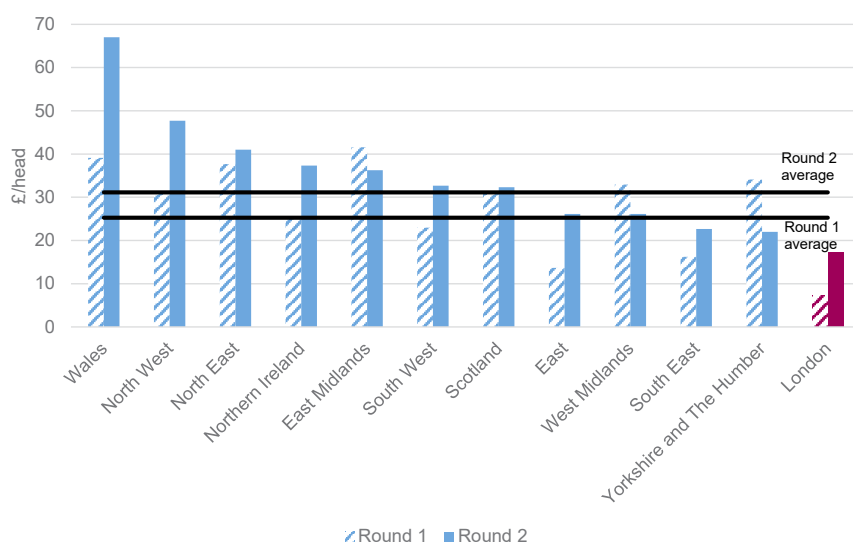
Figure 3: Country and regional value of awards per head, Rounds 1 and 2 of the Levelling Up Fund

Source: DLUHC Levelling Up Funds Round 1 and Round 2 announcements and ONS 2021 mid-year population estimates.

This month the Organisation for Economic Cooperation and Development (OECD) has produced updated analysis of the extent of devolved government across countries. 52 of the 81 countries it studied had boosted regional powers and responsibilities over the last five decades. Regional and local government expenditures have risen to reach 40% of total government expenditure across the OECD. Previous analysis had found that devolution across OECD countries had had mixed results in improving economic performance. The latest analysis concludes that unfunded mandates, where additional powers for subnational governments are not accompanied by the resources to deliver, lie behind lower economic growth. These losses may exceed any benefits from devolving powers to lower tiers of government.

London's population likely to rise more slowly than previously thought

GLA's City Intelligence Unit has published its latest set of population projections to incorporate the results of the 2021 Census. The latest results point toward significantly lower population growth in London than those produced a few years ago. This reflects:

● London's population growth slowed markedly after 2016 due to falling birth rates, a drop in international migration (due in part to Brexit), and the recovery of domestic outflows after the financial crisis

● Impacts of the pandemic. This not only caused tens of thousands of deaths, but had a huge impact on migration flows to and from London. The latest data from ONS estimate a net outflow of close to 130,000 people from London in the year to mid-2021

● Downward revisions of official estimates following the Census. After rebasing to account for the results of the Census, ONS's estimate of London's population in mid-2021 was 133,000 lower than it would otherwise have been

Three trend variants have been published – based on 5, 10, and 15 years of past migration trends – and give projected populations for London in 2041 that span a range of 9.2 to 10.1 million. The equivalent figure from the 2016-based projections spanned 10.5 to 10.9 million (Figure 4).
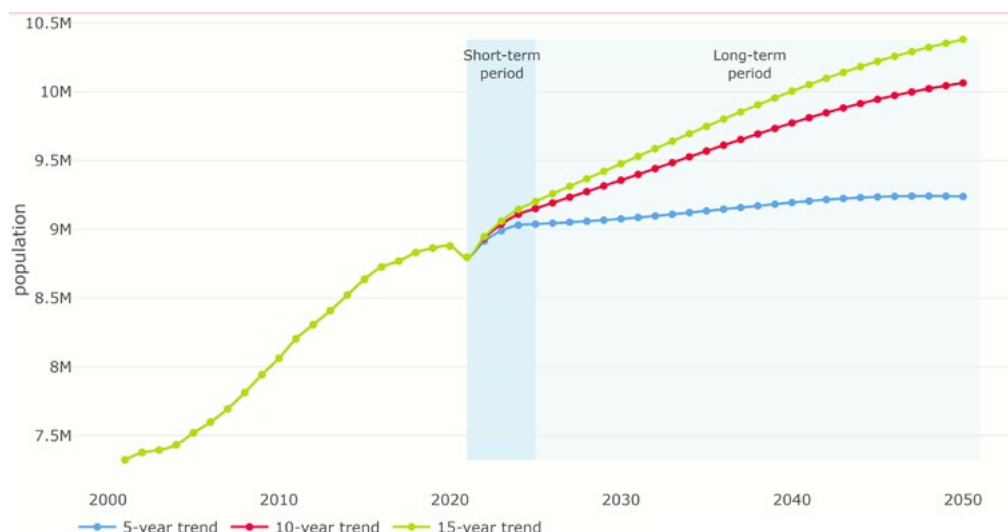
Figure 4: London's projected population

Source: GLA 2021-based population projections

London appears to be weathering the cost of living crisis better than the rest of the UK

The latest ONS regional GDP estimates indicate that London and the North West are the only regions of England to have re-attained pre-pandemic levels of output. By Q1 of 2021 London's recovery had been similar to that for England, but since then London has recovered more strongly. In the most recent quarter for which there is data (2022 Q2) London grew by 1.2%, while England's economy shrank by 1.6% (Figure 5).
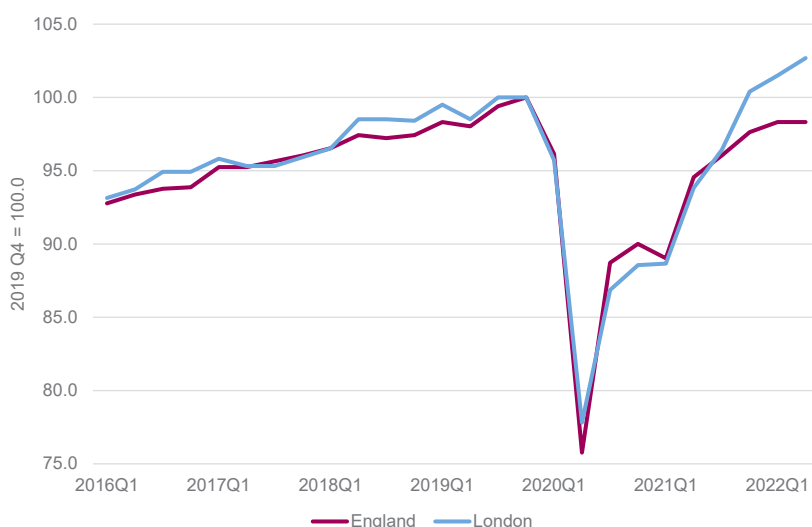
Figure 5: London and England GDP growth, 2016 Q1 to 2022 Q2, index numbers 2019 Q4 = 100.0

Source: ONS Quarterly regional GDP statistics

GLA Economics will continue to monitor the capital'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 remains marginally upward

- 184.8 million passenger journeys were registered between 11 December 2022 and 7 January 2023, 55.3 million journeys less than the previous period. 240.1 million passenger journeys were registered between 13 November 2022 and 10 December 2022.
- In the latest period, 68.5 million of all journeys were underground journeys and 116.3 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 206.8 in the previous period to 210.2 in the latest period.

Source: Transport for London
Latest release: February 2023, Next release: March 2023

**Passenger journeys by mode of transport**
(adjusted for odd days)
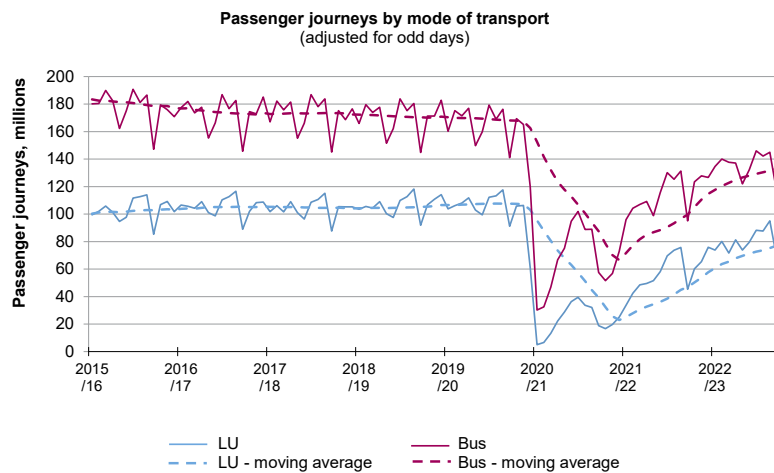
Annual growth in passenger journeys remained strongly positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 57.1% between 11 Dec 2022 to 7 Jan 2023, down slightly from 61.2% between 13 Nov 2022 to 10 Dec 2022.
- The moving average annual growth rate of bus journeys decreased from 46.6% to 43.3% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 100.3% to 93.4% between those periods.

Source: Transport for London
Latest release: February 2023, Next release: March 2023

Annual change in passenger journeys by mode of transport
(adjusted for odd days)
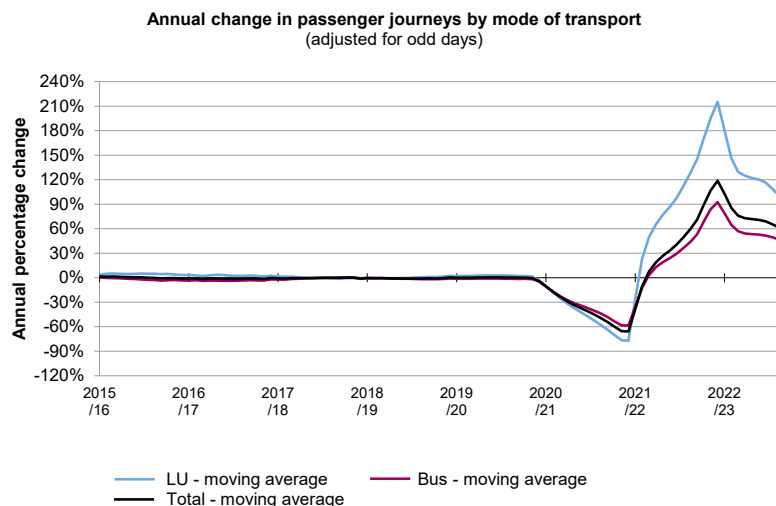
London's unemployment rate remained low in the quarter to December 2022

- Around 227,000 residents 16 years and over were unemployed in London in October – December 2022.
- The unemployment rate in London was 4.5% in that period, more than in the previous quarter, July – September 2022, at 4.2%.
- The UK's unemployment increased slightly, from 3.6% in July - September 2022 to 3.7% in October – December 2022.

Source: ONS Labour Force Survey
Latest release: February 2023, Next release: March 2023

Unemployment rate
(16 years and over, resident basis)
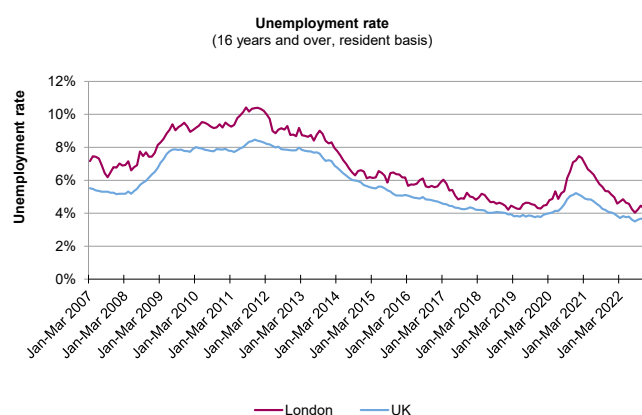
London's economy had surpassed pre-pandemic levels of output by Q4 2021, and continued to grow in Q2 2022

- By Q2 2022 London's GVA was 2.7% above its pre-pandemic level (Q4 2019), and UK GDP was 0.6% below.
- London's real GVA increased by 1.2% in Q2 2022 - compared with Q1 2022 - after increasing by 1.1% in the previous quarter.
- The UK's real GDP growth rate in the quarter to Q2 2022 was 0.1% after increasing by 0.5% in the previous quarter.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so is more robust. London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012 have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

Source: ONS and GLA Economics calculations
Latest release: February 2023, Next release: May 2023

**Annual percentage change in real London GVA and UK GDP**
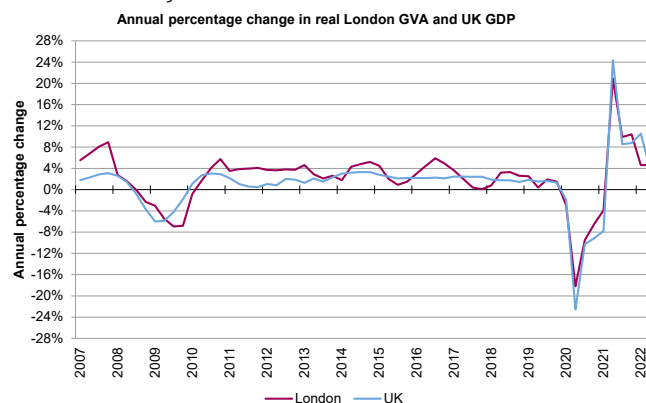
London's employment growth is negative in the quarter to December 2022

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of October – December 2022.
- The rate of employment growth in the capital declined to -0.7% in the year to this quarter, lower than in the previous quarter to September 2022 of 0.2%.
- There was an increase in the UK's employment annual growth rate of 0.8% in the most recent quarter, slightly faster than the rate of 0.7% in the previous quarter.

Source: ONS Labour Force Survey
Latest release: February 2023, Next release: March 2023

Annual percentage change in employment
(16 years and over, resident basis)
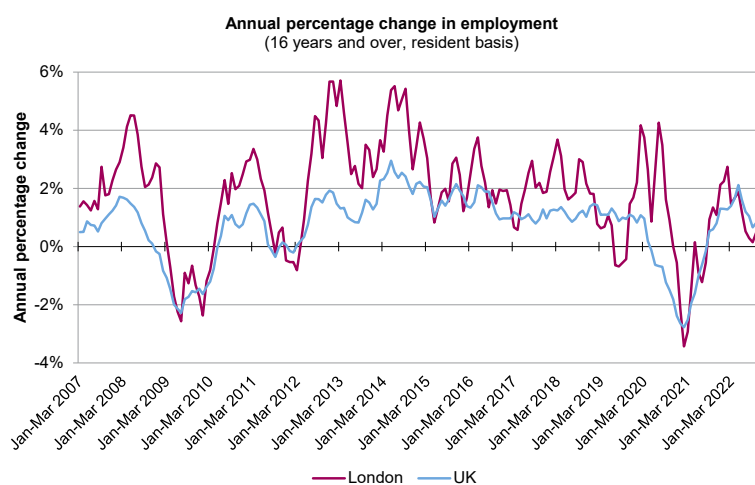
House price growth in London remained positive, but continued to decrease in December

- In December 2022, the average house price in London was £541,000 while for the UK it was £292,000.
- Average house prices in London rose by 6.2% year-on-year in December, below the rate in November of 6.5%.
- Average house prices in the UK rose by 10.0% in December on an annual basis, lower than the rate of 10.6% in November.

Source: Land Registry and ONS
Latest release: February 2023, Next release: March 2023

Annual percentage change in average house prices
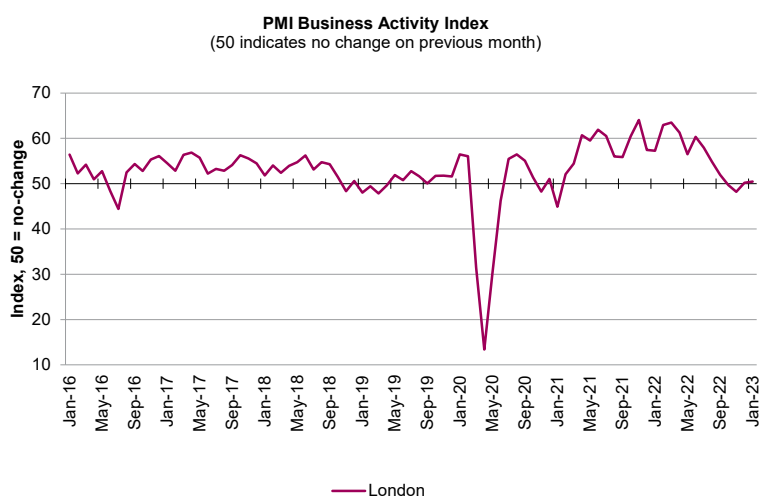(seasonally adjusted)
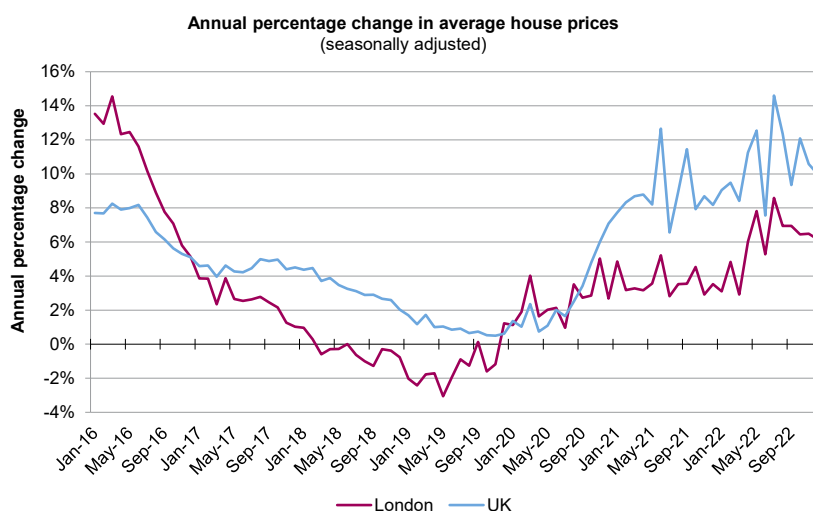
In January, the sentiment of London's businesses as measured by the PMI business activity index remained marginally positive

- The business activity PMI index for London private firms increased from 50.2 in December to 50.5 in January.
- 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 2023, Next release: March 2023

PMI Business Activity Index
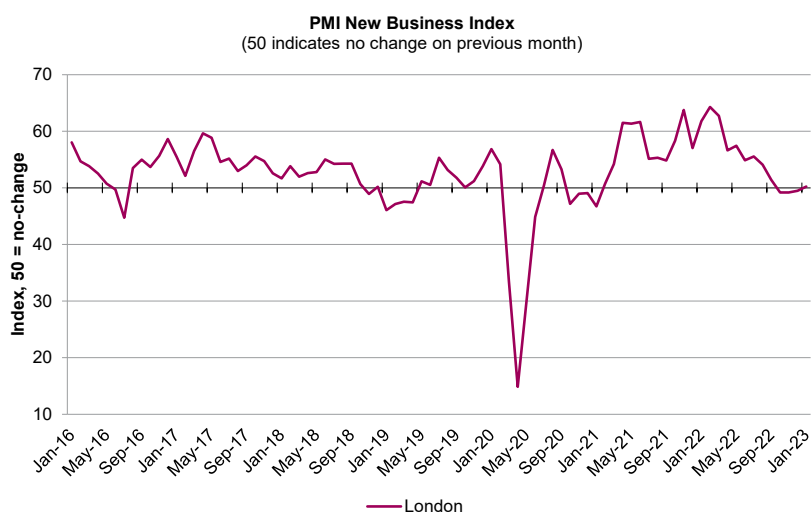(50 indicates no change on previous month)

In January the sentiment of London's businesses as measured by the PMI new business activity index increased slightly and became just positive

- The PMI new business index in London increased from 49.5 in December to 50.2 in January.
- 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 2023, Next release: March 2023

PMI New Business Index
(50 indicates no change on previous month)

In January, the sentiment of London's businesses as measured by the PMI employment index increased slightly and became marginally positive

● The Employment Index for London increased slightly from 49.0 in December to 50.6 in January.
● 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 2023, Next release: March 2023

PMI Employment Index
(50 indicates no change on previous month)
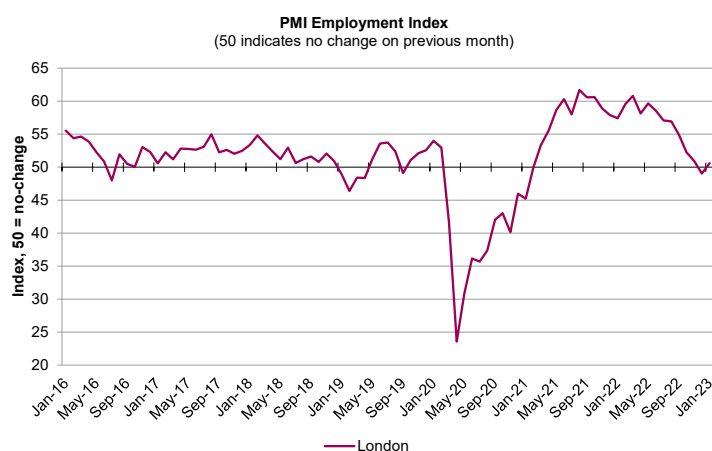
The number of property surveyors in London seeing house price falls in January increased markedly

● In January 2023, property surveyors in London saw an increase in the net balance of those reporting falling prices. The net balance index was –41 and in December 2022 it was–30.
● For England and Wales, the RICS house prices net balance index decreased from –42 in December to –47 in January.
● 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 2023, Next release: March 2023

RICS house prices net balance
(change in prices during last three months, seasonally adjusted)
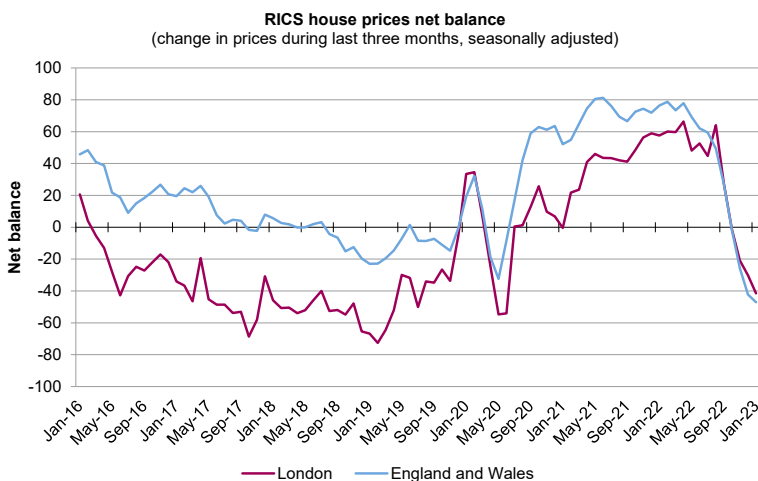
In January, net expectations for house prices in London for the next three months remained highly negative, according to surveyors

- The net balance of house prices expectations in London remained similar at -66 in January 2023, and -65 in December 2022.
- The index for England and Wales was also -66 in January, and -65 in 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: February 2023, Next release: March 2023

RICS house prices expectations net balance
(change in prices during next three months, seasonally adjusted)
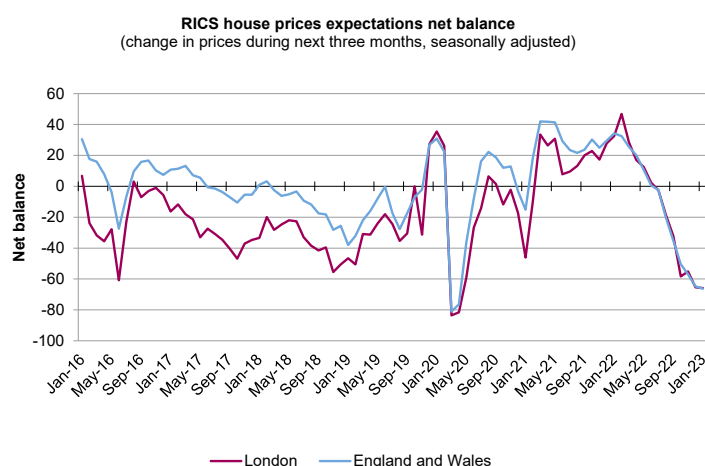
Consumer confidence in London decreased and remained negative in January

- The consumer confidence index in London decreased from -22 in December to -30 in January.
- The sentiment for the UK decreased from -42 in December to -45 in January. 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 2023, Next release: February 2023

Consumer confidence barometer
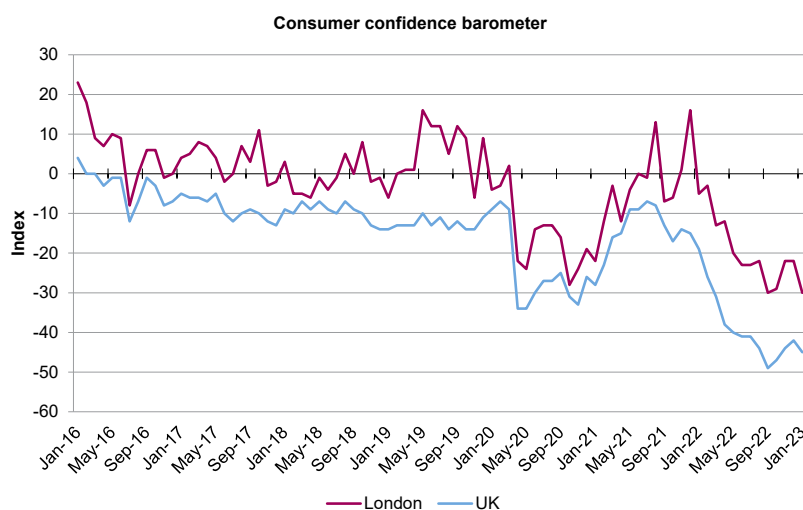
Evening and Night Workers in London

By **Ammar Ljubijankic Kutasi**, Economist

Think of London at night and a vibrant city, buzzing with culture and variety, springs to mind. This means that, for many Londoners, evenings and nights are a time for work.

We have refreshed our evidence on the capital's Evening & Night (E&N) workers – first published in 2018[1] – to consider how changes since the pandemic have affected this part of London's labour market. This article reviews emerging findings from analysis presented at the London at Night conference in January 2023[2]. We also include findings from a recent Office for National Statistics (ONS) publication[3] to compare against the broader UK picture[4].

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1 GLAE (2018) [London at night – an evidence base for a 24-hour city](#).
2 See the [GLA Datastore](#).
3 ONS (2023) [The night-time economy 2022](#).
4 Analysis based on respondents of ONS' Labour Force Survey (LFS) April–June datasets, whose place of work is in London. We define Evening & Night (E&N) workers as those who usually work in evenings and/or nights, regardless of daytime work patterns. Respondents to the LFS are not given guidance as to what constitutes 'evening' and 'night': while GLA's Night Time Strategy defines evening hours as 6pm-12am and night hours as 12am-6am, people in this analysis are not necessarily using those particular hours.

Despite recent falls, London's E&N workers remain a large part of the workforce

Around 1 in 4 (26%) people working in London were E&N workers in 2022. This means there were roughly 1.37 million people working in London who said that it was usual for them to work in the evening or the night (irrespective of whether they also worked in the day).

The total number of E&N workers in the capital has declined in recent years, however. The total was down from a high of 1.6 million E&N workers, or 30.7% of London's workforce in 2017 (Figure A1). While the share of E&N workers in London has historically been higher than most other regions, the share fell slightly below the overall UK average of 27% in 2022.
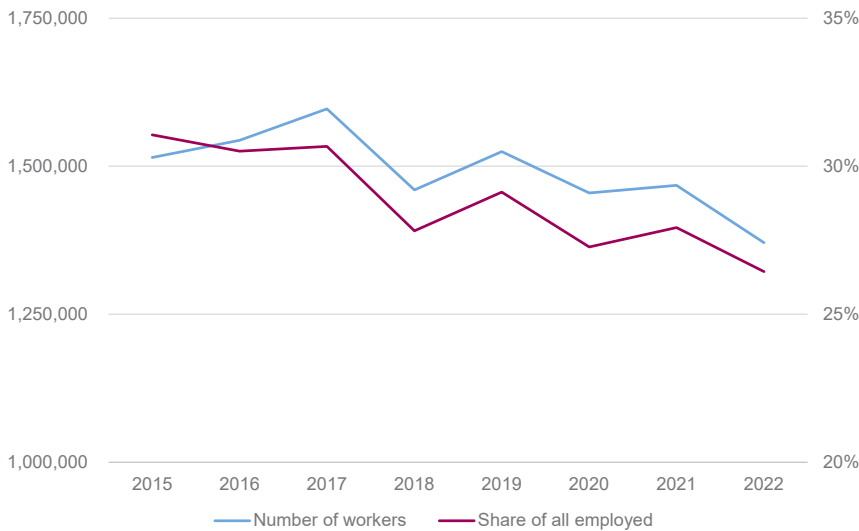

Figure A1: E&N workers in London. Number of workers (LHS) and share of total (%, RHS)

Source: GLA Economics analysis of ONS Labour Force Survey 2015-2022

Most E&N workers do not work nights, but those who do often work shifts

In 2022, the majority of London's E&N workers (Figure A2) exclusively worked a combination of days and evenings (776,000 or 57% of all E&N workers). The next largest group were those working a combination of days, evenings, and nights (439,000 or 32%). Overall, around 40% of London's E&N workers worked nights to some degree in 2022. Most of those workers (53%) were in jobs which involved shift work, which suggests that they do not always work nights but rather experience shifting work patterns depending on workplace scheduling.
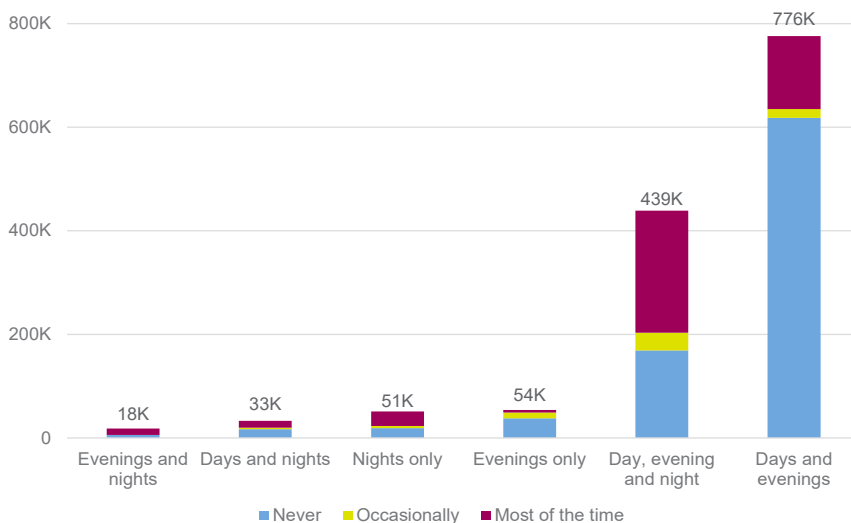

Figure A2: Pattern of E&N work.
1.37m workers by frequency of shift work

Source: GLA Economics analysis of ONS Labour Force Survey 2015-2022

The number of E&N workers in Professional occupations rose alongside an increase in home working

Despite the overall decline in numbers, some occupations have seen growth in the number of E&N workers since 2017 (Figure A3). Elementary service occupations, which includes jobs such as cleaners and private security guards, saw an uptick in E&N workers, particularly in the number of people who work nights rather than evenings. Despite being a relatively small occupational group in London overall, 27% of those who work nights are in Elementary administration and service occupations.[5]

However, it is Professional occupations, particularly within business, media and public services, which saw the largest increases in E&N workers since 2017, driven by people who worked evenings. This resulted in Professional occupations accounting for the largest share of E&N workers among all occupational groups in London.[6] As much of this increase occurred from 2020 onwards, it could reflect changes in working practices associated with hybrid working. Workers in Professional occupations are more likely to work from home in some capacity than workers in other roles[7], which may afford them the opportunity to choose working patterns that provide the best work-life balance.[8],[9]
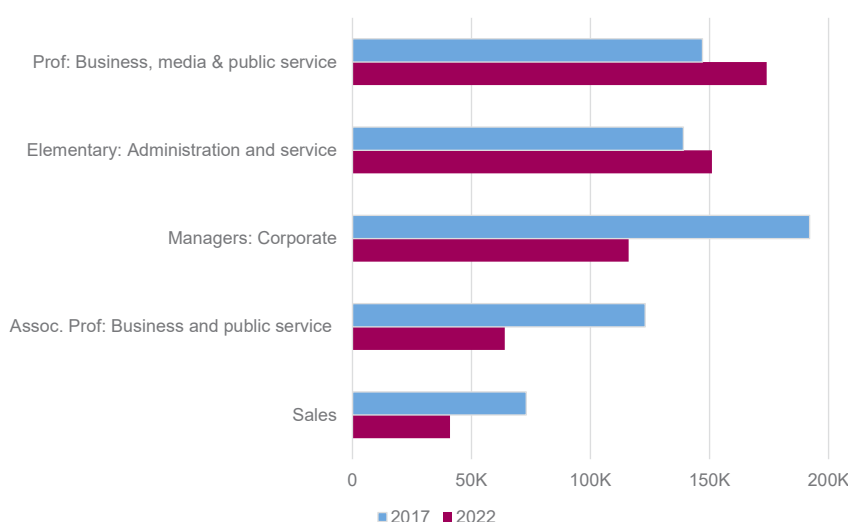
Figure A3: E&N workers by occupation in 2017 and 2022. Selected occupation sub-groups

Source: GLA Economics analysis of ONS Labour Force Survey 2015-2022

Share of women and older workers is increasing in the E&N workforce

More than half (57%) of London's E&N workers were men in 2022. However, the share of female E&N workers has been rising over the past five years, from 38% in 2017 to 43% in 2022.[10] Around 20% of E&N workers in London work part-time, which is relatively unchanged since 2017, and is similar to the share of part-time workers resident in London overall.[11]

By age group, those aged 25-44 made up 50% of London's E&N workers in 2022, though this had fallen from 52% in 2017. Instead, the age group 55-64 saw an increase in the E&N workforce share from 12% to 16% across the same period; both reflect trends in the UK overall.

For more analyses on London's labour market, see GLA Economics' [Datastore](#).

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5 Overall, around 6% of people working in London in 2022 were in the SOC sub-major group (the second-highest SOC grouping) "Elementary Administration and Service Occupations".

6 Professional occupations (a top-level SOC group) accounted for 31% of London's E&N workforce in 2022, up from 24% in 2017.

7 ONS (2023) [Characteristics of home workers, Great Britain](#).

8 In early 2022, three-quarters of home-working respondents to an ONS survey reported improved work-life balance as an advantage of home working. Source: ONS (2022) [Is hybrid working here to stay?](#)

9 Across all E&N workers in London, 22% worked from home in 2022, up from 9% in 2020, compared to 15% of all UK workers (up from 7%).

10 This is despite the share of female workers living in London remaining steady across these years (at 45-47%) based data from the ONS LFS (April-June). Note: these figures are based on workers who live in London.

11 19% of London residents in employment worked part-time according to the Annual Population Survey July 2021-June 2022 dataset.

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.

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The State of London - January 2023 update

The second edition of the State of London report by GLA 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 data from autumn 2022.

While London has continued to recover from the pandemic since the first edition of this report in June 2022, by October 2022 the impact of inflation on the city became increasingly evident as it affected both households and businesses.

Download the full publication.

Cost of living - August 2022 update

The cost of living crisis in London threatens to widen existing inequalities, halt the economic recovery from the pandemic and leave many unable to afford necessities.

This report (and accompanying online blog) builds on previous work at the start of this year to set out an evidence base on the impact of the cost of living crisis on Londoners.

Download the full publication.

London's Economic Outlook: Autumn 2022

GLA Economics' 41st London forecast suggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 6.9% due to the rebound from the COVID-19 crisis. Growth is expected to fall by 0.8% in 2023 due to the cost of living crisis before improving to growth of 1.5% in 2024.

Download the full publication.

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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.

MAYOR OF LONDON