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Inflation still in double digits as doubts arise about persistent price pressures

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The UK continues to face inflation above 10% according to the latest figures by the Office for National Statistics (ONS). Consumer Price Index (CPI) inflation slowed in March 2023 but still came in at 10.1% year on year. While energy prices remain the single largest inflationary pressure, food prices are accelerating to an increasingly alarming pace. The average price of a UK consumer's monthly food spending was 19.6% higher than a year ago, representing the fastest pace of food inflation in over 45 years.

Global energy costs are set to drag the headline rate of inflation down over the coming months. Already, fuel prices are falling as global oil costs hold well below their highs after Russia's invasion of Ukraine. And while household energy costs remain at eye-watering levels, figures from next month onwards are likely to show a much smaller contribution to inflation, as we compare with already-high bills in spring 2022.

Yet outside the relief from a plateau in energy costs, many other pressures have yet to peak. Even excluding the remarkably high rates of food and energy price inflation, 'core' CPI grew 6.2% year on year for a second month. Figures like this are driving concerns that high inflation could become embedded in the UK economy, even once energy costs fall. In the LET supplement this month, we highlight our

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

article published with the Economics Observatory about how inflation is playing out across London. Using our measure of 'shelf-front' inflation built up from ONS micro-data, we find London may have faced high inflation sooner than the UK average, and that many core cost pressures are yet to peak.

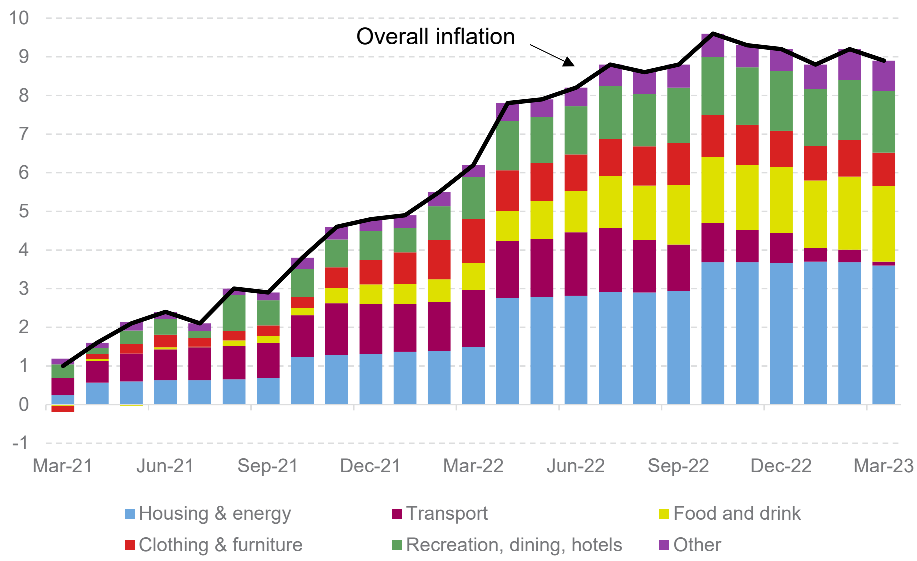


Figure 1: Contributions to CPIH inflation

Source: ONS
Note: CPIH is the ONS measure of CPI including owner-occupier housing costs, and tends to run below the CPI without owner-occupier costs

UK economy avoids recession, but growth momentum is weak

The UK economy escaped recession at the end of last year, but only by a narrow margin. Final figures for UK GDP in the last three months of 2022 showed economic activity rose 0.1% in Q4, after a contraction in Q3 2022. Initial estimates suggested no growth, so the final estimates are an improvement at the headline level. But more detailed figures offer a note of caution. While UK consumer spending was revised up a little, investment and exports were revised down. Another key source of the upward revision to GDP was a cut in import estimates. This means less spending was sent abroad, but it also suggests UK households and businesses spent less than initially estimated.

Meanwhile, the monthly estimate of UK GDP showed signs that early 2023 would continue the pattern of low, but positive, growth. February saw UK GDP make no growth on the month, though January was revised up slightly to 0.4% growth. Service sector output fell 0.1% in February, as public sector strikes continued to have an impact. Manufacturing remained weak, down 0.2%, and construction grew at a strong 2.4% in February after a weak January. Overall, the three months to February 2023 saw output grow 0.1% – in line with the momentum from Q4 2022.

Within the service sector, monthly GDP growth was mixed. Consumer-facing sectors picked up for a second successive month, though activity in this area of the economy is still below its pre-pandemic level, and has trended downwards overall since July 2022. The advanced services that underpin London's economy were mostly weak at the national level. Real Estate, Professional services and IT all dragged on service sector output in February, while Finance offered a moderate boost. Yet recent quarters have seen London's services sector prove more resilient than the national picture, so these figures may understate the scope for growth in the capital.

Unless momentum sharply deteriorates later this year, overall economic activity has proven surprisingly resilient to the cost of living crisis. The UK looks set to avoid a recession, even if growth momentum is only just above zero. Data from the British Chambers of Commerce also showed that firms across the UK are more optimistic about conditions in the next 12 months than over the last three months. 52% of UK firms believe their business turnover will increase in the next year. But a range of triggers, from delayed impacts of monetary policy tightening to global financial sector struggles, could yet worsen the outlook.

UK joins Indo-Pacific partners in trade agreement

On 31 March the UK Government reached an agreement to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) as its 12th member. This is an important milestone in establishing new trade partnerships after leaving the EU, but is unlikely to be significant in economic terms. The UK already has trade agreements with nine of the partnership members, and the government estimates the long-run increase in GDP from joining at 0.08%. This compares with an estimated long-term loss of 4% of output from leaving the European Union.

Currently, the ONS reports that UK trade has nearly recovered to its pre-pandemic levels. Service exports have exceeded pre-pandemic levels, and goods and service imports are at or near former levels. The exception is goods exports which remain subdued, (Figure 2). These developments are likely to have been of benefit to London's economy given its orientation to service exports. It is consistent with analysis over a year ago by the Department for International Trade that there would be expansion in world trade in business services over the coming years, and that the UK (and so, London) is well positioned to take advantage. What the chart does not indicate, though, is how much higher trade might have been in the absence of Brexit.

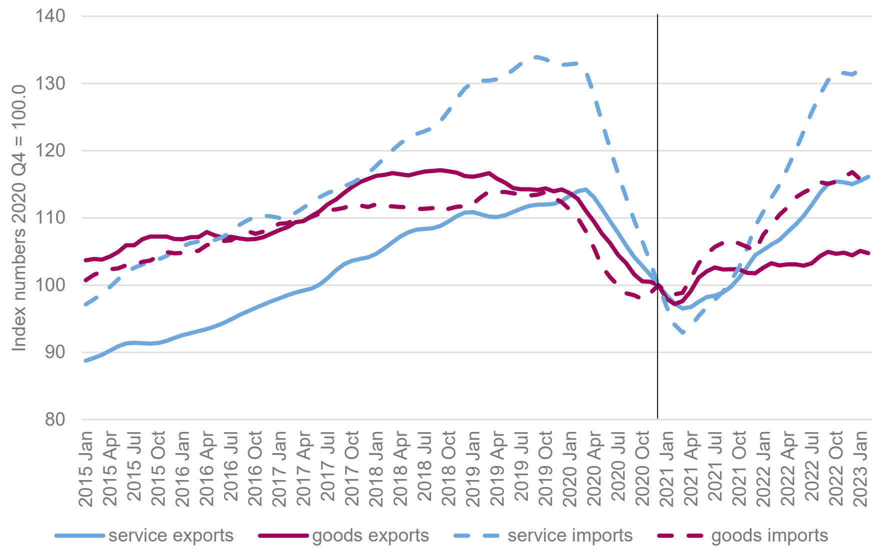


Figure 2: UK trade, 12 months ended January 2015 – February 2023, £ million 2019 prices

Source: ONS monthly trade statistics

Note: Goods figures exclude precious metals because of their volatility

UK gets an IMF forecast upgrade, but still lags the global pack

The International Monetary Fund (IMF) published its latest forecasts this month, with a moderate global growth outlook, similar to its previous projections in January. Globally, economic activity is set to slow from growth of 3.4% in 2022 to 2.8% in 2023 and 3% in 2024 (Figure 3). The IMF is more pessimistic about global growth in the medium term (in five years' time) than it has been since 1990.

Even within the slower group of advanced economies, the UK stands out as a laggard in the projections. The world's richest countries are set to average growth of just 1.3% this year and 1.4% next year. Yet, the IMF expects UK GDP to fall 0.3% across 2023, and to grow only 1% in 2024. Despite being an upgrade on previous projections of a 0.6% contraction in 2023, these figures mean the UK is projected to have the weakest growth in the G7 group of major advanced economies this year. Germany is the only other major economy set for a contraction this year (down 0.1%), and the UK's growth projections are significantly slower than even sanctions-hit Russia (set for 0.7% growth). While London should be among the more resilient parts of the UK in macroeconomic terms, its position as a centre for UK exports means the weak medium-term global prospects offer cause for concern.

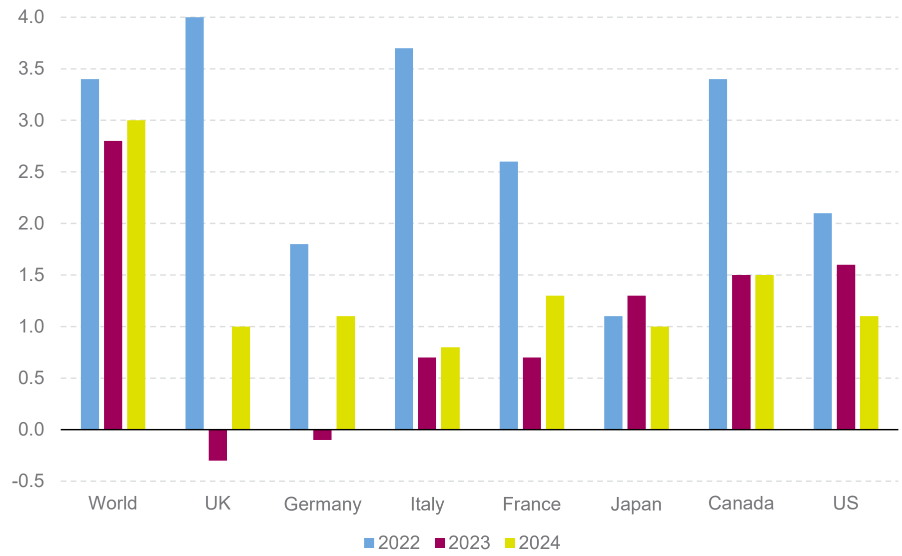


Figure 3: IMF projections for global and G7 growth

Source: IMF

Among the world's largest economies, the US is projected to grow 1.6% this year and 1.1% in 2024. The IMF expects the Chinese economy to expand 5.2% in 2023 and 5.1% next year. As the world's second-largest economy emerges from tough COVID-19 control measures in place all the way through to late last year, its economic activity is already out-performing expectations. China's GDP grew 4.5% year-on-year in Q1 2023, up from 2.9% in the last three months of 2022, and faster than a forecaster consensus of 4% according to Trading Economics. While the improving outlook for China's growth should help support global growth, it may also put further upward pressure on inflation as demand rises for energy and other manufacturing inputs.

Meanwhile, at the same time as China's economy showed signs of a firm recovery, estimates suggest its population may not be the world's largest for much longer. New projections from the United Nations Population Fund (UNFPA) found that India's population is set to overtake China's by the middle of 2023. The gap of 2.9 million people on its own represents over 4% of the UK's projected population in 2023 (67.7 million). The figures are only estimates, as the pandemic prompted China to defer its census by three years to 2024. But they offer a reminder that the world's second-largest economy may soon have to face up to structural headwinds from a plateauing population and a long-term trend towards slower global trade growth.

Immigrant numbers in London's workforce have been rising

HM Revenue and Customs has updated its statistics on payrolled employments (excluding the self-employed who are not owner managers) in the UK by region, industry and nationality, and GLA Economics has published an analysis for London. Immigrants to London in work have been rising strongly, thanks to liberalisation of the immigration regime making it easier for non-EU nationals to reside here. The main trends are:

- In June 2016 (at the time of the Brexit referendum) there were almost the same number of both EU and non-EU nationals working in London at 780,000 for each group
- By December 2019 (and prior to the pandemic) the populations of both groups had risen to around 855,000, and subsequently there has been a divergence in trends
- EU nationals fell to 747,000 by January 2021 (the time of the introduction of the new immigration regime) before rising slightly to 765,000 by December 2022
- Non-EU nationals fell to 823,000 by January 2021, before rising to 1,050,000 by December 2022, (Figure 4).

The total share of employments in London held by non-UK nationals has increased from 35.1% in July 2014 to 39.5% in December 2022.

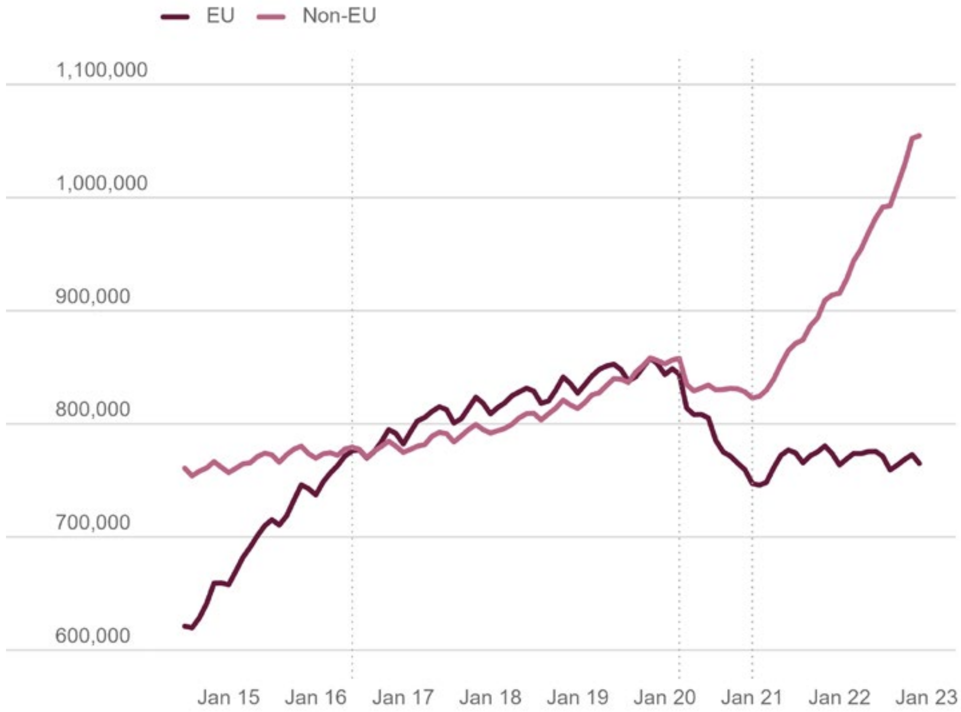


Figure 4: Employment by nationality within London, count of total payrolled employments, June 2014 to December 2022

Source: GLA Economics analysis of HMRC data – Pay As You Earn Real Time Information (non-seasonally adjusted) and Migrant Worker Scan

Note: Estimates are based on where employees live. Vertical lines indicate Brexit vote of June 2016, beginning of lockdown in March 2020, and the end of free movement in January 2021

Migrant workers are relatively more populous in the London economy than at the national level. In December 2022, 16.6% of resident payrolled employments in London were held by EU nationals and 22.9% were held by non-EU nationals. The corresponding figures for the UK are 7.8% and 9.3% respectively. That said, the UK has experienced a higher rate of growth in employments held by non-EU workers than London in recent years.

Outlook for London's economy may be less negative

Over two in five businesses (43%) think that London's economy will shrink over the next 12 months, according to the London Chamber of Commerce and Industry (LLCI) Q1 2023 Quarterly Economic Survey. This, though, is a marked improvement from Q4 2022 when the corresponding figure was 52%. 25% of London's businesses now expect the capital's economy to improve over the next 12 months (up from 21% three months ago).

Businesses were slightly more confident about their own profitability than not, with 36% expecting an increase in the coming 12 months, and 31% who anticipate a decline. That said, businesses continued to face enormous cost pressures – 74% reported that their energy costs had increased in Q1 2023, 49% had higher domestic raw material costs, and 47% faced greater pressures to raise wages.

Looking at the challenges faced by retail, on 1 April business rate revaluations came into effect with some relief for the retail sector especially in London. The Local Data Company reports that 42 of the 269 shops in Oxford Street stood empty, a vacancy rate of 16%, and more than the average British high street. More in depth analysis from them focused on fashion and general clothing shops for 110 high streets over 94 towns in England and Wales. This category has seen a net loss of 5,927 units over the years 2018-23. London locations will see the biggest decreases in business rates. For Oxford Street this is £164,000 on average, and the next biggest decreases are on Regent Street, Long Acre, George Street (Richmond), and the Strand. In terms of magnitude only eight high streets across England and Wales will see business rates fall by 40% or more in April 2023, compared to April 2019 when 19 high streets saw their rates rise by 40% or more.

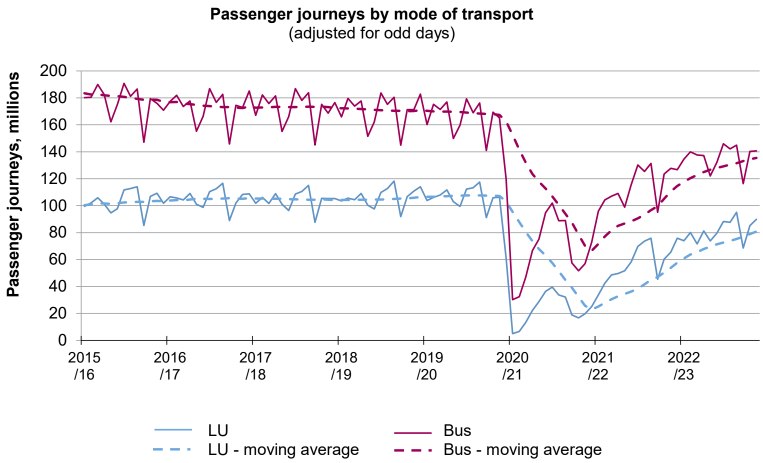
GLA Economics will continue to monitor economic events of interest to the capital over the coming months in our analysis and publications, which can be found on our [publications page] and on the [London Datastore].

Economic indicators

The underlying trend in passenger journeys on London public transport remains marginally upward

- 230.4 million passenger journeys were registered between 5 February 2023 and 4 March 2023, 4.9 million journeys more than in the previous period. 225.5 million passenger journeys were registered between 8 January 2023 and 4 February 2023.
- In the latest period, 89.8 million of all journeys were underground journeys and 140.6 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 213.4 in the previous period to 216.3 in the latest period.

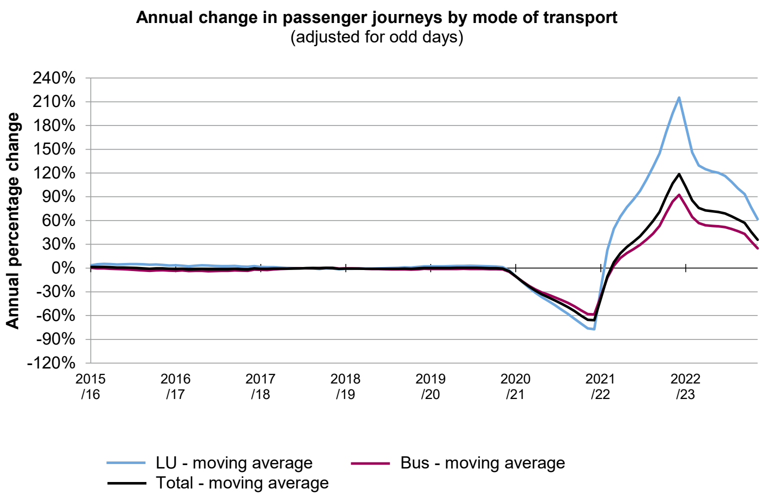
Source: Transport for London
Latest release: April 2023, Next release: May 2023



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 35.7% between 5 February 2023 and 4 March 2023, down from 45.9% between 8 January 2023 and 4 February 2023.
- The moving average annual growth rate of bus journeys decreased from 33.6% to 24.8% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 76.6% to 61.7% between those periods.

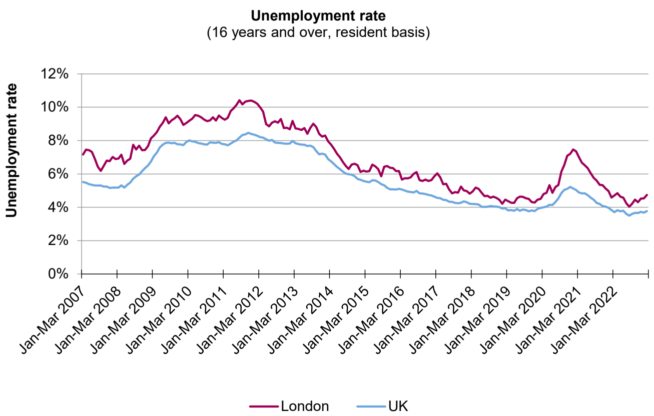
Source: Transport for London
Latest release: April 2023, Next release: May 2023



London's unemployment rate remained low but increased in the quarter to February 2023

- Around 240,000 residents 16 years and over were unemployed in London in December – February 2023.
- The unemployment rate in London was 4.7% in that period, higher than in the previous quarter September – November 2022 at 4.3%.
- The UK's unemployment also increased from 3.7% in September – November 2022 to 3.8% in December – February 2023.

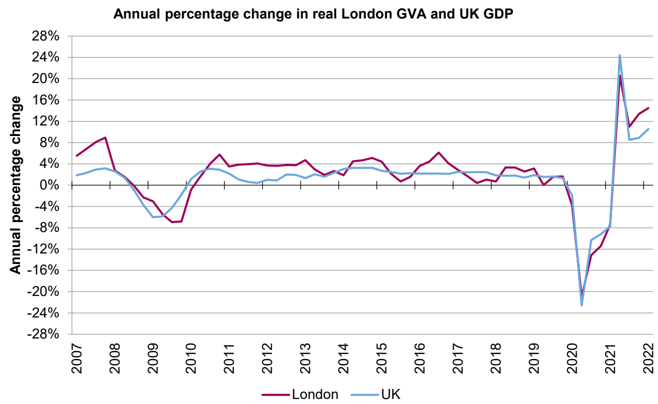
Source: ONS Labour Force Survey
Latest release: April 2023, Next release: May 2023



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.

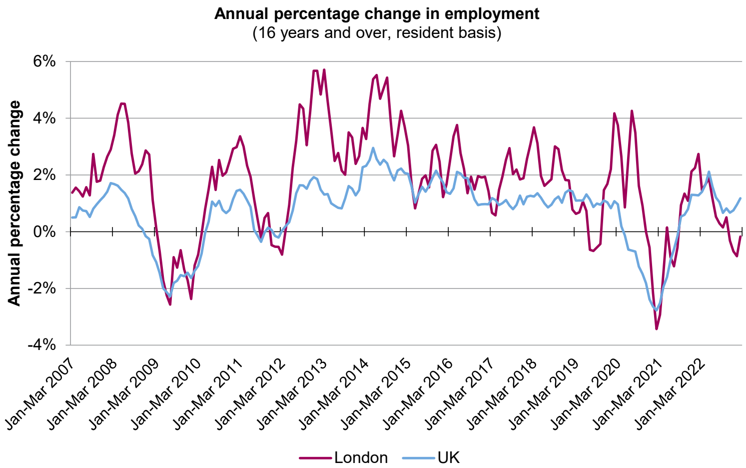
Source: ONS and GLA Economics calculations
Latest release: February 2023, Next release: May 2023



London's employment growth remained negative in the quarter to February 2023

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of December – February 2023.
- The rate of employment growth in the capital declined to -0.2% in the year to this quarter, higher than in the previous quarter to November 2022 of -0.3%.
- The change in the UK's employment annual growth rate was 1.2% in the most recent quarter, slightly faster than the rate of 0.7% in the previous quarter.
- London's labour market remains a conundrum. Contrary to the survey data reported here administrative data suggests that jobs growth continues apace.

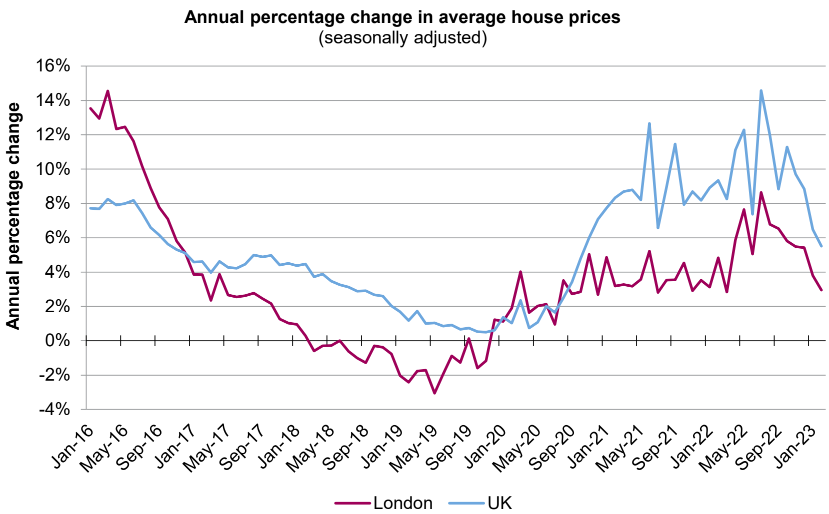
Source: ONS Labour Force Survey
Latest release: April 2023, Next release: May 2023



House price growth in London remained positive, but continued to slow in February

- In February 2023, the average house price in London was £531,000 while for the UK it was £288,000.
- Average house prices in London rose by 3.0% year-on-year in February, less than the rate of 3.8% in January.
- Average house prices in the UK rose by 5.5% in February on an annual basis, lower than the rate of 6.5% in January.

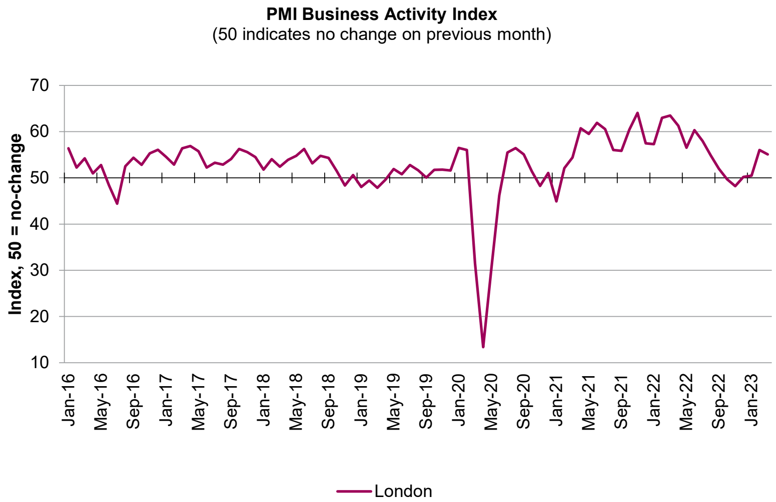
Source: Land Registry and ONS
Latest release: April 2023, Next release: May 2023



In March, the sentiment of London's PMI business activity index remained positive

- The business activity PMI index for London private firms decreased slightly from 56.0 in February to 55.1 in March.
- 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.

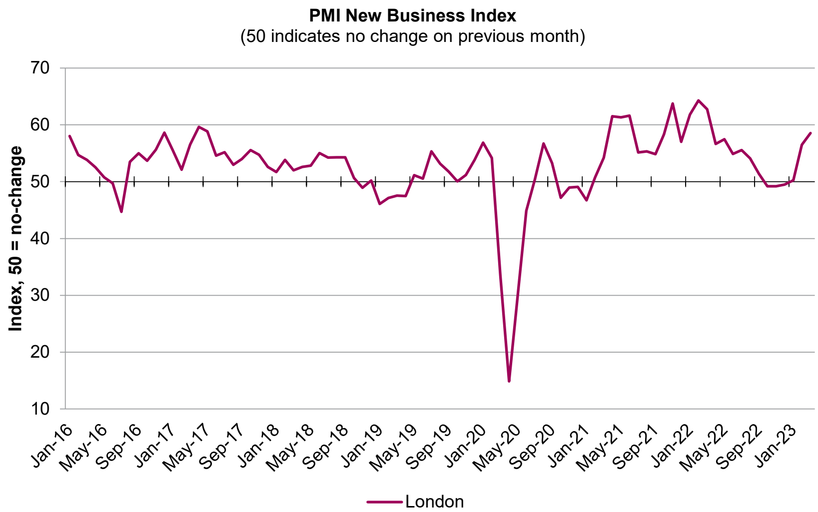
Source: IHS Markit for NatWest
Latest release: April 2023, Next release: May 2023



In March the sentiment of London's PMI new business activity index remained positive and improved

- The PMI new business index in London increased from 56.5 in February to 58.6 in March.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

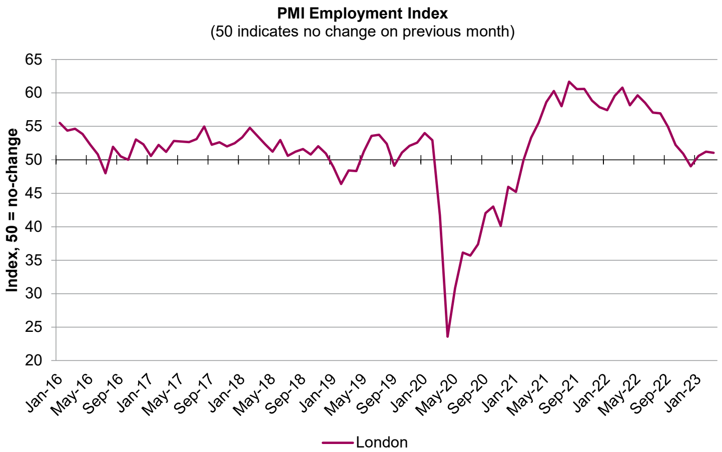
Source: IHS Markit for NatWest
Latest release: April 2023, Next release: May 2023



In March, the sentiment of the PMI employment index in London remained marginally positive

- The Employment Index for London decreased slightly from 51.2 in February to 51.0.
- 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.

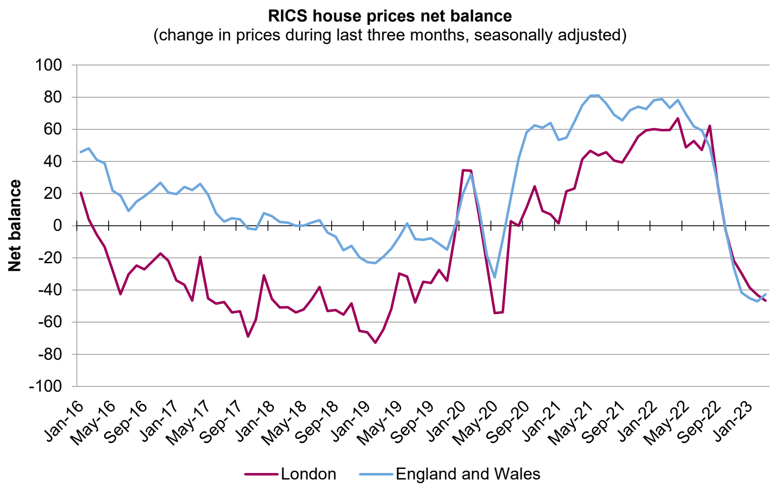
Source: IHS Markit for NatWest
Latest release: April 2023, Next release: May 2023



The number of property surveyors in London reporting house price falls in March increased slightly remaining highly negative

- In March 2023, more property surveyors in London reported falling prices. The net balance index was -47 and in February 2023 it was -43.
- For England and Wales, the RICS house prices net balance index improved from -47 in February to -43 in March.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

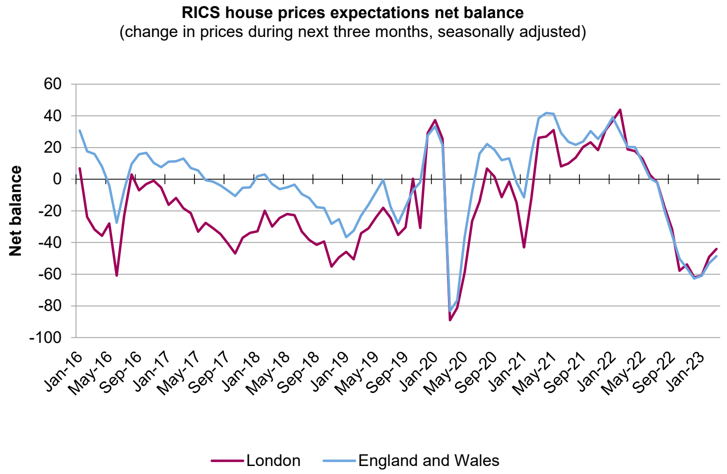
Source: Royal Institution of Chartered Surveyors
Latest release: April 2023, Next release: May 2023



In March, net expectations for house prices in London for the next three months improved but remained highly negative, according to surveyors

- The net balance of house prices expectations in London was -44 in March 2023 a slight improvement from the reading of -49 in February 2023.
- The index for England and Wales was -53 in February and -49 in March.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

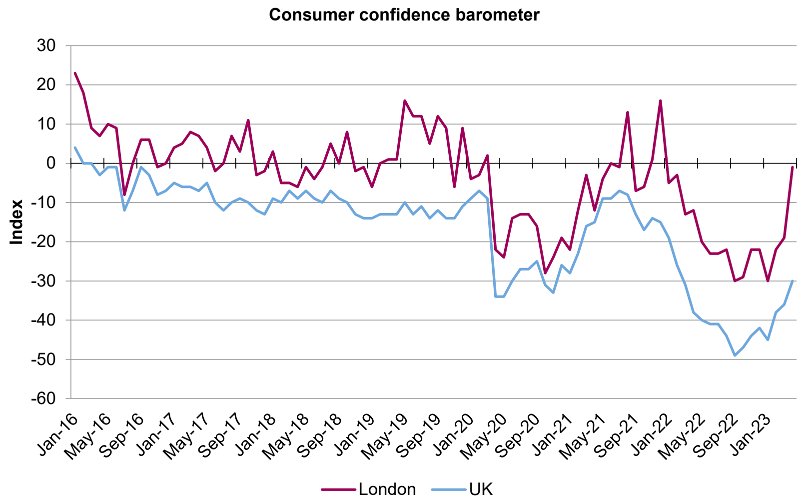
Source: Royal Institution of Chartered Surveyors
Latest release: April 2023, Next release: May 2023



Consumer confidence in London improved noticeably in April to be almost neutral

- The consumer confidence index in London improved from -19 in March to -1 in April.
- The sentiment for the UK improved from -36 in March to -30 in April. 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: April 2023, Next release: May 2023



How is inflation affecting people in London?

James Watson, Economist

This article was recently published on the Economics Observatory website.

London is a famously expensive city. But higher salaries, lower energy bills, and better public transport led some to believe that people living in the capital may be resilient to rising prices. By analysing the latest prices micro data, it is clear that Londoners face a serious squeeze on their household finances.

Londoners are, at least partly, protected from inflation. Or so the common wisdom runs. The average Londoner is richer, has leaner energy bills, and enjoys living in a city with faster-growing output and jobs to help plug the gap. This means that despite Consumer Price Index (CPI) inflation in the UK being at multi-decade highs (above 10% year-on-year), Londoners are hurt less by this.

But averages hide the strain on London's poorest, and the share of spending on energy bills is not the only issue that counts. Prices are changing variably between different parts of the country and this affects who feels the bite of inflation at what time. Taking detailed data from the Office for National Statistics (ONS), we can try to build a clearer picture of how inflation has played out in the capital. The latest numbers suggest that Londoners may have faced price hikes sooner than the rest of the UK, on average. And outside the relief from falling global energy prices, many shelf-front price pressures have not yet peaked. For people living in the capital, the worst may yet be to come.

Why would inflation differ across regions within the same country? One reason is that different spending patterns in different parts of the UK change the experience of inflation. On this measure, London looks less exposed to the cost of living crisis. Data from 2021 shows that households in the capital devoted the smallest share of their spending to energy bills (4.2%) out of any UK region, with Northern Ireland (nearly 7%) the highest. Londoners also drive less, meaning they were not as exposed to soaring prices for second hand cars and petrol in 2021. This is the narrative that led commentators like the Centre for Cities to conclude that those living in London and the South East were experiencing much lower inflation.

But spending patterns are not the only factor – prices themselves can differ between parts of the UK. It's well-known that London is an expensive city. The ONS calculated that in 2016, London's prices were around 7% above the UK average, even after excluding housing costs. Given that both median house prices and median rents in London are well over 80% above the average for England, the overall 'cost of living premium' in the capital will be much higher.

This is common for big cities across the world. Data from the United States, for example, shows that metropolitan areas tend to have higher prices than the national average. San Francisco was the most expensive area, with prices (including housing) nearly 20% above the US average in 2021.

International experiences can also help us understand why these differences arise. Population size and density, as well as wage levels, were the key drivers of price variation across areas according to a German study. London is certainly the most densely populated area of the UK, with 5,600 people per square kilometre, versus an average for England and Wales of just under 400. And its median earnings are over 20% higher than the UK average. London's position as the most expensive UK region clearly fits this logic.

But ONS data from 2016 gives us few clues on the latest trends in the cost of living crisis. So, how can we measure recent changes in individual regions' prices? Unlike the United States, which calculates inflation in major cities like New York, Los Angeles and Chicago, the UK has no official statistics for prices at a sub-national level. But every month, the ONS releases detailed data on individual quoted prices for around half the basket of goods and services that go into the CPI. This data comes from ONS-contracted price collectors physically visiting or phoning up businesses around the UK and recording their prices. Vitally for our work, these quotes are recorded by region. A cleaned and collated version of the dataset running back to 1988 is available as the 'Long-Run Price Database' created by Richard Davies (Economics Observatory Director). For simplicity, we will refer to these figures as 'shelf-front' prices, even if many of the goods and services don't come on shelves (childminder fees, for instance).

While useful, there are some limitations to this data. Most importantly, coverage is not even across all goods and services. The other half of the CPI basket, where data is collected centrally by ONS head office, contains some vital costs for households. Crucially, this includes energy bills – the single biggest driver of the current surge in inflation. But the data covers other areas well. Even after excluding some volatile entries, the shop-front dataset contains around 70% of food prices in the CPI and 80% of restaurant prices. So, while price quotes are not a complete picture, they give us an insight into a range of important areas.

Other limitations are more technical. By restricting our work to prices sold in London, our sample sizes become smaller, introducing more uncertainty into our findings. There are also some changes to the size or quantity of the items purchased that we cannot pick up properly; and products going on sale will also affect our results. Finally, regional price measurements can be affected by biases that arise from the variety of products in different areas. Past research on US scanner data found that correcting these biases undermines the common finding that smaller cities have lower prices than larger ones. Correcting these limitations could form the basis for future work.

With the shelf-front prices in hand, it is important to find a way to build a measure of inflation. We trim out the top and bottom 10% of per item price growth rates (i.e., outlier datapoints), then find an average for the rest (weighted for shares in consumption). More detail on this method and how we build weights for London consumption is available in a GLA report from August 2022. The results are shown in the figure below:

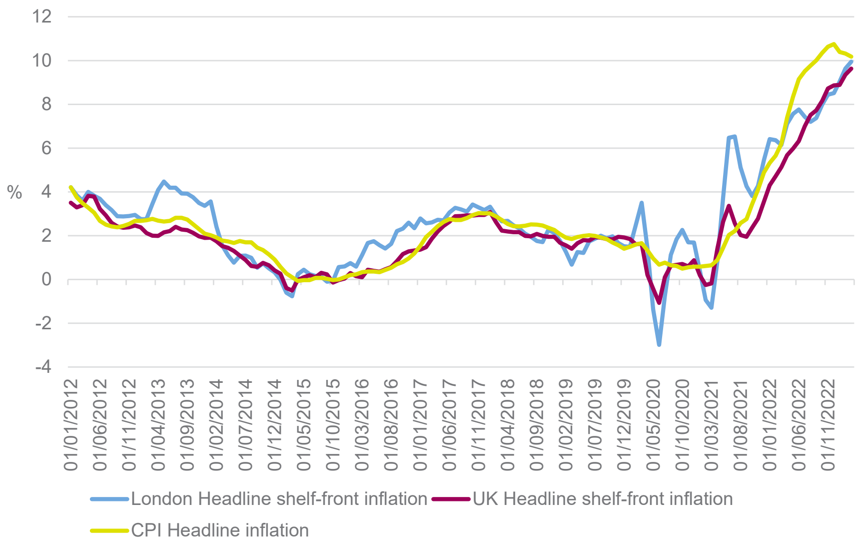


Figure 1A: Headline shelf-front inflation in London versus the UK

Source: GLA Economics, ONS price quotes, Davies, 2023

The first thing that stands out from these results is that neither national nor London trends in shelf-front inflation have peaked yet. Shelf-front inflation in March hit 9.9% year-on-year in London (blue line), somewhat above the UK average of 9.6% (purple line). Both figures are still on an upward trend, unlike headline CPI inflation, which peaked in late 2022. Global fuel and energy prices are easing, which should bring down inflation this year. But outside those areas, a wide range of price pressures may take longer to slow down.

Another result that stands out is that London's prices took off much faster than the rest of the UK at the outset of the cost of living crisis. In the six months from June to November 2021, the capital faced average shelf-front inflation of over 5%. Over the same period, the national figure was 2.5%. The last three months of data also show London prices pushing back above national trends. We should bear in mind that the shelf-front inflation measure leaves out energy bills. This means the wider UK's inflation experience is likely higher than these figures suggest – actual CPI inflation (the dotted line), at over 10%, is certainly higher. But while this makes it less clear whether London's overall inflation is above national trends, the price pressures captured in this measure do seem to have taken off faster in the capital – and may peak higher.

Why did London's inflation pick up sooner? One explanation could lie in its faster economic recovery from the pandemic. Experimental quarterly GDP figures from the ONS show London as the fastest-growing region in 2021. By the end of the year, it was experiencing annual economic growth of over 13% and output had recovered above pre-pandemic levels – just as the city's shelf-front inflation was almost two percentage points higher than the national average. Faster-growing demand in London may well have seen the capital hit supply chain challenges harder and sooner, driving up inflation.

Yet even as economic output advanced, the evidence suggests a significant chunk of Londoners were falling behind in their personal finances. Throughout 2022, GLA-commissioned polling data from YouGov showed an average of around 8.4% of Londoners falling behind on bills. In contrast, national ONS polling data showed 4.4% of Brits fell behind on gas and electricity last year. The latest GLA polling in March 2023 shows one in five Londoners (20%) were struggling financially. These respondents were roughly three times likelier than the overall sample (29%, compared with 9%) to report that they were going without essentials such as food, and more than twice as likely (30%, compared with 12%) to be using more credit or going into debt to help them manage living costs. In terms of the future, in January 2023, nearly four in ten (36%) Londoners expected they would definitely or probably struggle to meet energy bills over the next six months.

So, despite an economic recovery, higher inflation is hitting the worst-off Londoners hard. And one area of inflation that acutely affects those on low incomes is food prices, as lower-income households tend to devote more of their spending to food compared to richer households. Food has been a key factor in high inflation over the last year, and prices were up nearly 20% year-on-year in March. To see how this has played out in London, we can extract the food prices from our shelf-front data.

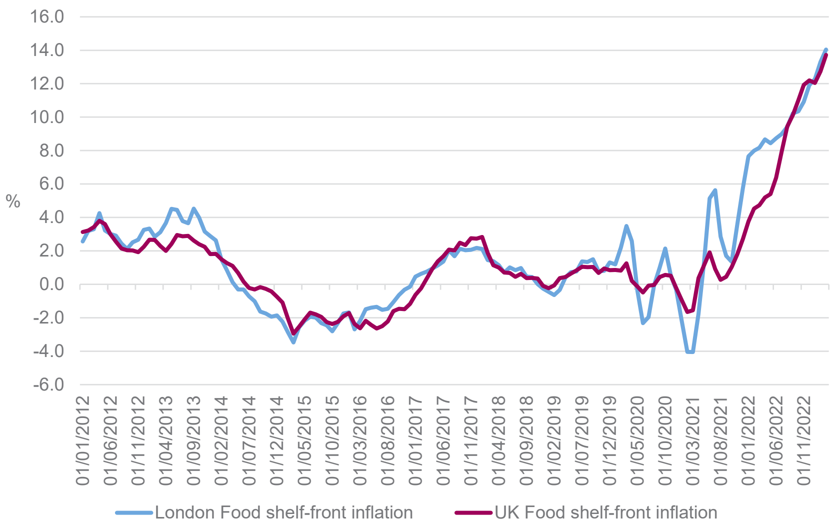


Figure 2A: Shelf-front food price inflation in London versus the UK

Source: GLA Economics, ONS price quotes, Davies, 2023

Shelf-front food inflation reached 14% in London, while the national trend was 13.7%. This is lower than the headline CPI figure, which is likely a result of our data trimming method. Here again, London saw an acceleration greater than the UK average at the start of the cost of living crisis. In the year from June 2021, London's shelf-front food prices grew at an average pace around double the national average. Even when wider UK trends caught up, this will still have left many prices higher in London relative to the rest of the country.

For instance, one of the fastest areas of recent food inflation has been dairy products. The price of a two-pint bottle of semi-skimmed milk is now 67% higher in London than in March 2021, while on average across the UK, the same product is up 61% in price. For a kilogram block of cheddar, the figures are even more extreme: nearly 63% for London versus just over 37% for the UK. If lower-income households are more affected by food inflation, this evidence suggests those in London faced the squeeze sooner.

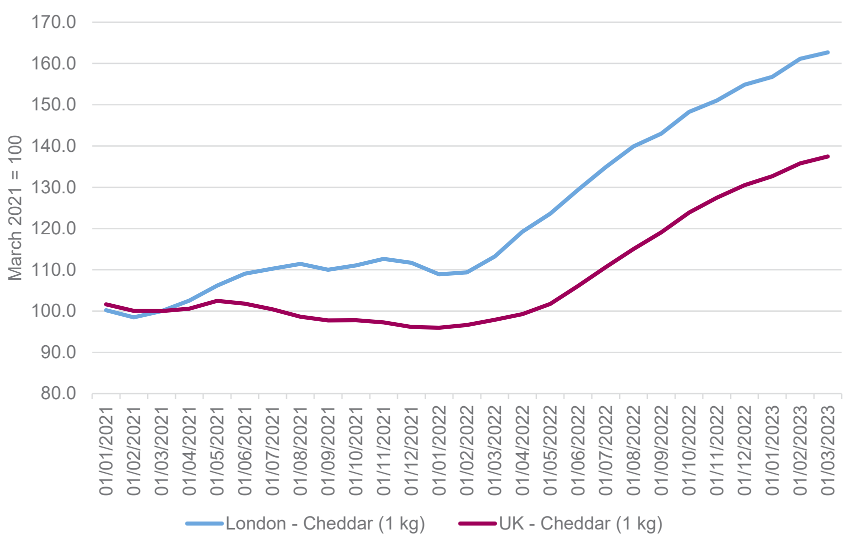


Figure 3A: The change in cheese prices in London and the wider UK

Source: GLA Economics, ONS price quotes, Davies, 2023

Outside the home, food and drink prices have also been rising faster in London's restaurants, pubs and bars compared with the rest of the UK. Dining out in the capital cost 13.7% more in March 2023 than a year earlier, compared with a UK average increase of 11.5%. And it is not just high-end eateries that are seeing prices soar. London's 'pint premium' for a draft bitter in a pub has gone up over the last two years. While a London pint cost around 19% more than the UK average at the end of 2019, the latest figure now stands at just under 29%.

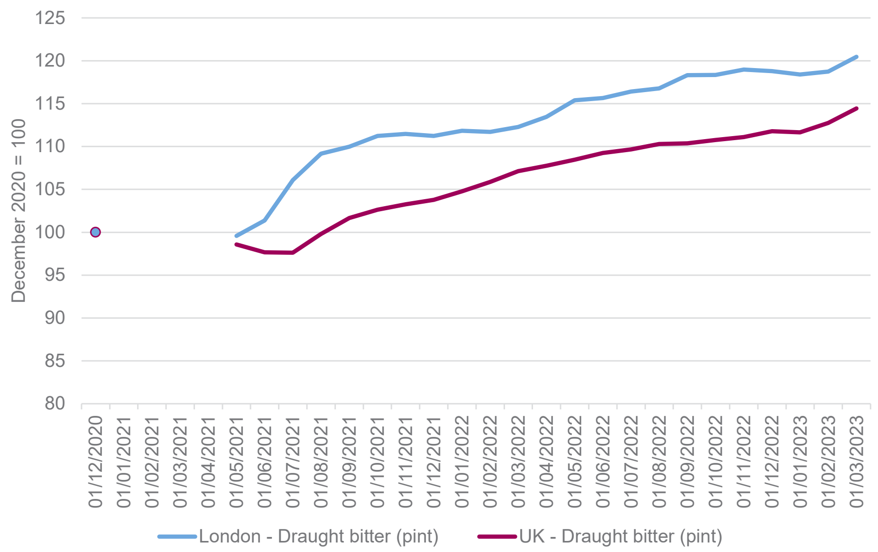


Figure 4A: The change in price for a pint of bitter in London and the UK overall

Source: GLA Economics, ONS price quotes, Davies, 2023

Note: gaps in the data are where price quotes are entirely unavailable due to the pandemic.

Turning to other essential costs, a major current concern for UK policy-makers is childcare. Here, clear price trends are harder to unpick because of volatility, especially when we restrict the sample to London. But on an item-by-item basis, we can dig out some insights. For both nursery care and childminders, the difference between costs in London and the wider UK have narrowed in recent months. This suggests childcare may be one area where Londoners' essential costs have peaked sooner. At the same time, childminder hours in London are still 52% higher than the national average, while for nursery fees the gap is 44%.

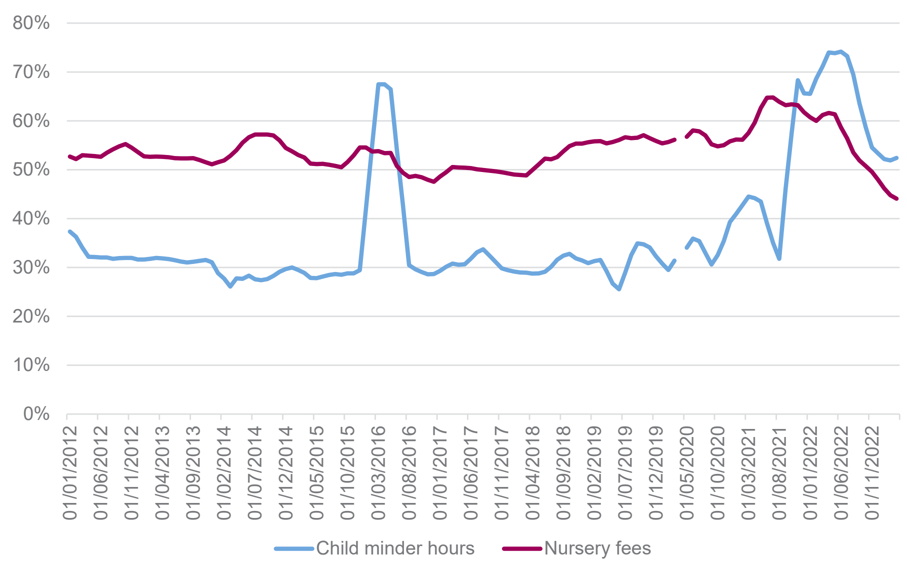


Figure 5A: The gap between childcare costs in London versus the UK average

Source: GLA Economics, ONS price quotes, Davies, 2023

All these trends have implications for policy. Our finding that some essential costs in London may have risen faster and sooner makes the latest round of benefit uprating crucial for low-income households in the capital. More broadly, poorer Londoners may have faced the squeeze from rapid inflation eroding real incomes for longer. The fact that shelf-front inflation has not yet peaked at either the local or national level is a reminder of how important ongoing support is, as universal energy bill payments end this month. And with food costs an important part of the capital's inflation trend, the Mayor of London's recent decision to universally fund free school meals for all primary school children in the city could not be more timely.

At the same time, the limitations underlying some of our statistics also speak to the need for more investment in local data collection. Without local price trends for energy, housing, cars and public transport, and with sampling problems and biases over the long term, we can only construct a partial picture at present. The ONS is in the process of transforming price data with detailed scanner data underlying their methods – and changes like this are welcome. To properly serve the needs of our communities, we need high-quality evidence to build effective, deliverable solutions, and these findings are just the beginning.

To find out more about Richard Davies' prices micro data (shelf-front prices), [click here.]

Appendix Note: YouGov survey on behalf of GLA. All figures, unless otherwise stated, are from YouGov Plc. See online for sample sizes and fieldwork dates. The survey was carried out online. The figures have been weighted and are representative of all London adults (aged 18+). In terms of those 'falling behind on bills', this relates to the composite category of 'I've fallen behind on all payments' and 'I fell behind on some payments'. During 2022, this question was asked in fieldwork in January, April, May, July, September, October and November. For those 'behind on gas/electricity', national data asked about gas or electricity bills, while London data is on bills overall. But similar trends are on display for falling behind on mortgage or rent payments, with an average of 6.4% of Londoners falling behind, while the ONS national average is 3%. For those classed as 'financially struggling', this is a composite category of those who identified as 'having to go without basic needs and / or rely on debt to pay for them' or 'were struggling to make ends meet'. Finally, for those 'going without essentials', this refers to the response option that reads 'going without essentials (food, electricity or gas for example)'.

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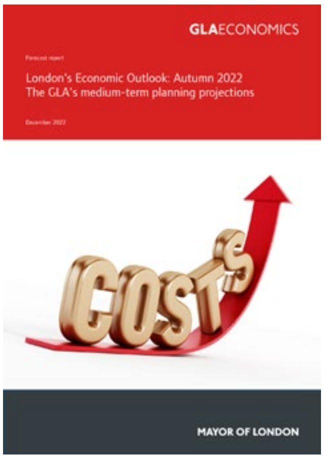

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the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

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