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Inflation remains stubbornly high in the UK

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Data published by the Office for National Statistics (ONS) this month showed that annual Consumer Price Index (CPI) inflation stood at 8.7% in May unchanged from April (Figure 1). This rate was unexpected by most economists with a poll by Reuters showing that most expected a lower inflation rate in May. Core annual CPI inflation which excludes energy, food, alcohol and tobacco rose in May to 7.1% up from 6.8% in April.

The monthly CPI inflation rate in May stood at 0.7%, the same as in May 2022. Increasing prices for air travel, recreational and cultural goods and services, and second-hand cars were the largest drivers of inflation, whereas falling motor fuel was the largest downward contribution to inflation.

Food and non-alcoholic beverages price rises did ease a touch in May but remained very high. They increased at 18.4% in the year to May 2023, down from 19.1% in April and from their 45-year high of 19.2% in March.

Annual growth in private sector earnings increased to 7.6% in the three months to April, and while lower than inflation making workers on average worse off, it was 0.5 percentage points above the Bank of England's Monetary Policy Committee's (MPC) expectation in

Also in this issue

May. Still, the direct source of the rising CPI inflation, annual producer price inflation (PPI) for output has fallen very sharply in recent months as supply chain logistics ease, and so the MPC expects core goods CPI inflation to decline, (Figure 1). The MPC also expects CPI inflation to fall significantly further during the year, in the main reflecting developments in energy prices.

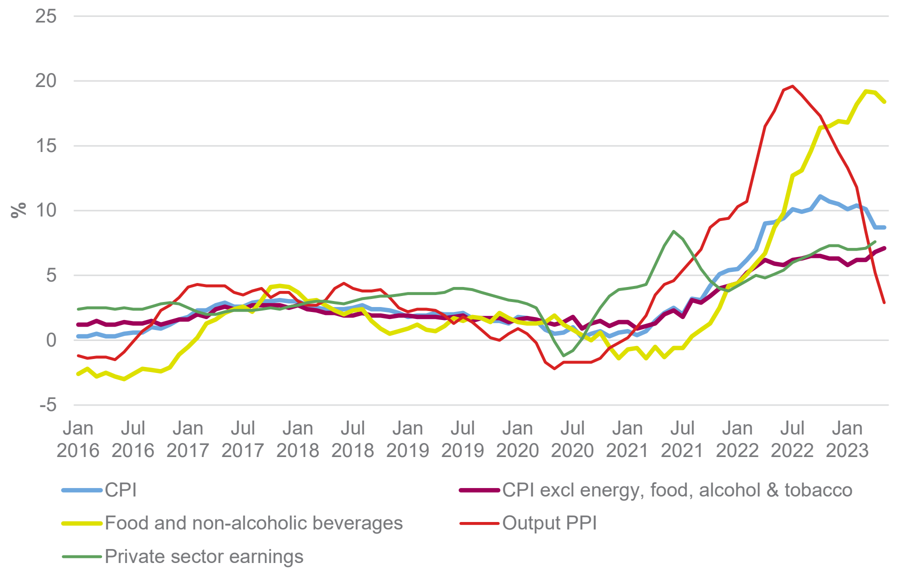


Figure 1: UK inflation measures and private sector earnings, 2016-23

Source: ONS CPI, PPI, and Average Weekly Earnings

Note: Data is monthly from January 2016 to May 2023, except for earnings which is quarterly to April 2023

The Bank makes a large interest rate rise as inflation fails to fall

In an attempt to tackle inflation the Bank of England announced its thirteenth consecutive interest rate rise, pushing it to 5%, a more than expected increase of 0.5%. The Bank's MPC said, "There has been significant upside news in recent data that indicates more persistence in the inflation process, against the background of a tight labour market and continued resilience in demand." At the time of May's MPC meeting, the market-implied path for the Bank interest rate averaged just over 4% over the next three years. Stronger than expected economic conditions, and persistently high inflation, have led to yields on government borrowing, or gilts, rising materially, particularly for shorter maturities – they suggest a path for the Bank interest rate that averages around 5½%.

The MPC recognises that the second-round effects in domestic price and wage developments generated by external cost shocks are likely to take longer to unwind than they did to emerge. As a sense of the challenges facing the MPC, UK inflation in May is higher than in other major economies – for the EU it is 7.1%, and the US, 2.7%.

The effect of interest rates on housing costs has yet to be fully felt, and will impact on London most

Higher interest rates feed through into higher lending costs for businesses and households, and so over time into fewer funds for other activities. The Resolution Foundation (RF) has conducted an analysis of the impact on households, both so far, and what there may be to come. Annual mortgage repayments are on track nationally to be £15.8 billion a year higher by 2026 compared with December 2021, when the Bank started raising interest rates. This estimate is up from £12 billion in May, reflecting how sharply expectations of mortgage lending rates have risen. By the end of June 4.2 million (56% of mortgage holding) households in Britain will have seen their mortgage rate change, and payments increase by £6.3 billion. The remaining 3.3 million have yet to see their fixed rate deals expire, and three-fifths (£9.5 billion) of the projected increase in repayments is yet to come. By the end of 2026, British households are set to end up with annual mortgage bills that are £2,000 higher on average than in December 2021. In contrast, when repayments surged in 1989 after the Bank increased interest rates to nearly 15%, the increase in repayments was only about £1,200 in today's money for the typical mortgagor.

This gives mortgagors an incentive to pay off their loans. The Bank reports that borrowers repaid £1.4 billion more on their mortgages than banks lent out in April. Higher mortgage repayments may also be making house purchases less attractive with both the Halifax and Nationwide reporting year-on-year falls in house prices. Although the ONS figures reported with the LET indicators, which are based on completed sale prices, are still showing prices rising, if at a slowing rate, on an annual basis for London and the UK.

Further, there will be important distributional impacts. The pain of rising mortgage repayments is less widespread than in the past. In 1989, almost 40% of households nationally owned a home with a mortgage. By last year, through more older people owning outright, and fewer young people owning at all, the corresponding figure was below 30%, estimates the RF. London is seeing the highest absolute increase in mortgage payments at £520 per month, followed by the South East at £390, estimates the Institute for Fiscal Studies (IFS) – these are the areas where house prices are higher. This raises concerns about affordability, despite the comparative affluence on average of these regions, because the ratio of house prices to earnings is also higher than for other regions. The IFS reports that the increase in mortgage payments corresponds to a 12% fall in disposable income for mortgagors in London, and a 9.4% fall in the South East, compared with 6-7% in Britain outside the East of England and the South West. (The reported studies in this section are using different methodologies, so estimates are not strictly comparable.)

A bright spot is that the number of repossessions remains low, affecting 1,250 properties nationally in the first three months of the year. There are reasons to believe repossessions will remain restrained, particularly compared with the 1990s, thanks to: regulatory reforms to require lenders to support struggling borrowers; increased levels of equity held by homeowners; and, the widespread use of fixed rate mortgage deals. Additionally, UK banks have agreed to introduce a 12-month minimum period before repossessing the homes of borrowers who cannot keep up with mortgage payments. This is similar to the assistance introduced by banks during the pandemic.

There may also be consequential impacts on renters. Rising interest rates are putting pressure on landlords, pushing some to consider selling up, according to the Royal Institution of Chartered Surveyors (RICS). In turn, this could further squeeze the availability of rental properties and raise costs for tenants. Rental costs have been rising both in London, and beyond, although they are now rising faster in the capital as the London market picks up from the fall in demand during the pandemic, (Figure 2). As these figures are for all rentals, many of which will be subject to existing rental agreements, that pre-date recent rent increases, the cost of new rentals is rising faster. The GLA has published research this month on these trends. The IFS notes that historically renters have had higher housing costs than mortgagors – with this being 24% higher pre-pandemic.

Rising interest rates and high inflation are also having a negative impact on some heavily indebted firms. This has been seen with the issues faced by Thames Water which has £14billion of debt. The company is seeking extra funding to finance this debt and the government has discussed the possibility of a temporary nationalisation of the company if necessary.

Figure 2: Annual percentage change in private rentals, London and the UK outside London, 2016-23

Source: ONS Index of Private Housing Rental Prices

Note: Data is from January 2016 to May 2023

Cost of living crisis heavily impacting low income Londoners

Further evidence of the hardships to Londoners caused by the cost of living crisis came to light this month. A new survey by the Joseph Rowntree Foundation found that nearly 80% of Londoners on low incomes (defined as households in the bottom 40% category of equivalised income across the UK) were skipping meals or going without essentials. While 84% of low income renters in the capital were going without essentials. This compares to 75% for the UK. The survey also found that 26% of low-income renters were in arrears in the capital compared to 16% in the UK. 84% of low-income households with children were going without essentials, with this rising to around 90% for lone parent households. And 27% of all low-income households in London are in energy arrears, compared to 16% at the UK level.

Other data also shows the continuing price pressures caused by the cost of living crisis. Kantar found that supermarket prices rises stood at 16.5% on the year in the 4 weeks to 11 June. Although this was down from the 17.2% seen in the previous 4 weeks. This mirrors the high official inflation estimates for food and non-alcoholic beverages reported above. This will affect low income households disproportionately, as they spend a larger share of their income on these items.

UK government debt now more than 100% of GDP

ONS data published this month showed that public sector net debt excluding public sector banks exceeded 100% of GDP in May 2023 with it standing at 100.1% of UK GDP. The last time debt as a percent of GDP exceeded 100% was March 1961.

Still at least data shows that the UK economy continued to grow into the second quarter of 2023 with ONS data showing that GDP grew by 0.2% in April, after falling by 0.3% in the previous month. The service sector grew by 0.3% in the month after falling by 0.3% in the previous month. Output in consumer facing services grew by 1% in April after falling by 0.8% the previous month. However, output in the production and construction sectors both fell in April after seeing growth in the previous month.

Eurozone inflation falls but it has entered a recession

Data published this month gave a mixed picture for the Eurozone. Thus, data shows that inflation in the Eurozone fell back again in May 2023 to 6.1%. This was down from the 7.0% seen in April and a high of 10.6% in October 2022. For the EU as a whole inflation stood at 7.1% in May down from 8.1% in April. Despite this positive news other indicators were less optimistic with GDP data showing the Zone had entered a technical recession. The data thus showed that the economy contracted by 0.1% in Q1 2023 with this following a contraction of also 0.1% in Q4 2022. Household spending in the Eurozone is also declining with it falling by 0.3% in the first three months of the year having fallen by 1.0% in the final three months of last year.

London's culture sector and creative industries contribute to the success of the London and UK economies

GLA Economics has published an assessment of the contributions of the cultural and creative industries sectors, and whether they have been supported through the levelling up agenda. London's creative industries paid £13 billion in taxes in 2019/20, around 8% of taxes paid in London, a significant component of London's net fiscal contribution to the Exchequer, see below. It is the capital's third largest sector, after finance and real estate. The sector supports regions outside of London through trade and supply chains. There is 24p of production generated elsewhere in the UK for every pound consumed or invested in London.

Despite London's need to level up, it is being ignored. 4% of the Government's £23 billion of levelling up funding is for London, despite 12% of England's most deprived neighbourhoods being in the capital. In 2023/24 there has been an 18% uplift in funding for the arts through Arts Council England National Partnership Organisations – there were no additional funds for London. Despite their own cutbacks local authorities, especially in London, have been topping up arts funding withdrawn by central government – this is suggestive of insufficient central government funding. The lack of provision of funds for London is damaging for London and the UK.

Overseas tourism to London recovers to near pre-pandemic levels

New data shows that international tourism is approaching near pre-pandemic levels. The ONS has published data on international visitors up to 2022 Q4. Quarter-on-quarter over 2022 there has been a steady recovery compared with trends in 2019. By 2022 Q4 visits and spend were around 90% of their level in 2019 Q4, and nights had more than recovered to reach 106%.

Narrower, but more recent, data on traffic at Heathrow up to May 2023 suggests that recovery has continued this year, (Figure 3). Indeed, in May passenger numbers were at the level of May 2019. GLA Economics research suggests that the recovery has been led by North Americans visiting friends and relatives, rather than going on holiday. Business trips have been the slowest to recover. In contrast, Heathrow cargo movements remain almost 20% lower. Notably, as this month's London's Economic Outlook reports, UK goods exports remain depressed compared with pre-pandemic levels.

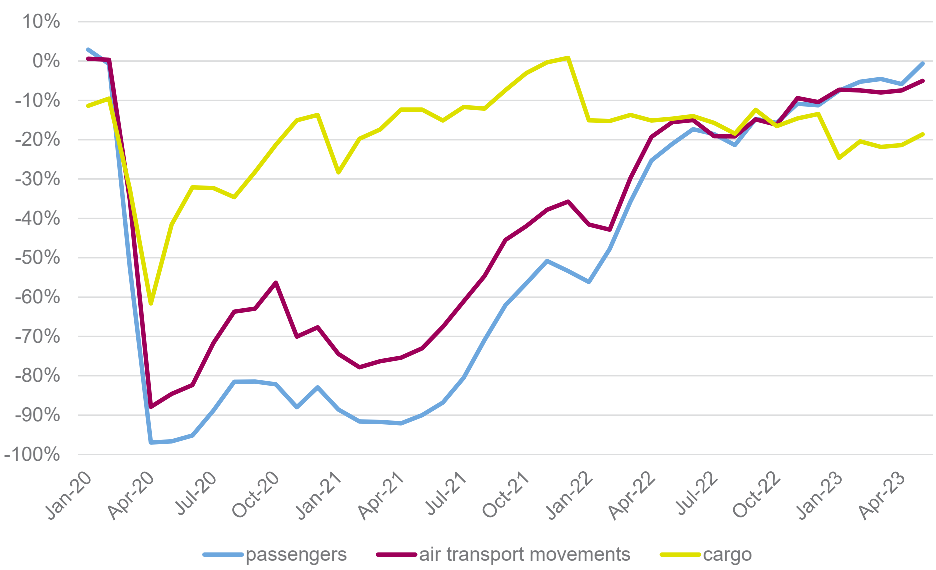


Figure 3: Percentage change in Heathrow traffic over same month in 2019 for passengers, air transport movements and cargo

Source: Heathrow traffic statistics

Note: Data from January 2020 to May 2023

Once again, London makes a net contribution to the Exchequer

London made a positive (often large) net contributions to the Exchequer between 2009/10 and up to the start of the pandemic. A surplus of £4,500 per person in 2019/20 switched to a deficit of £800 per person in 2020/21. Even in 2020/21, London – out of all the UK countries and regions – made the smallest call per head on the public purse. In 2021/22, London returned to making a net contribution to the Exchequer, and again the largest of the countries and regions of the UK, at £4,300 per person, (Figure 4). These contributions can be disbursed to the other countries and regions of the UK, and so support the development of the nation.

Figure 4: Net fiscal contribution of the countries and regions of the UK, 2021/22, £ per head

Source: ONS Country and regional public sector finances

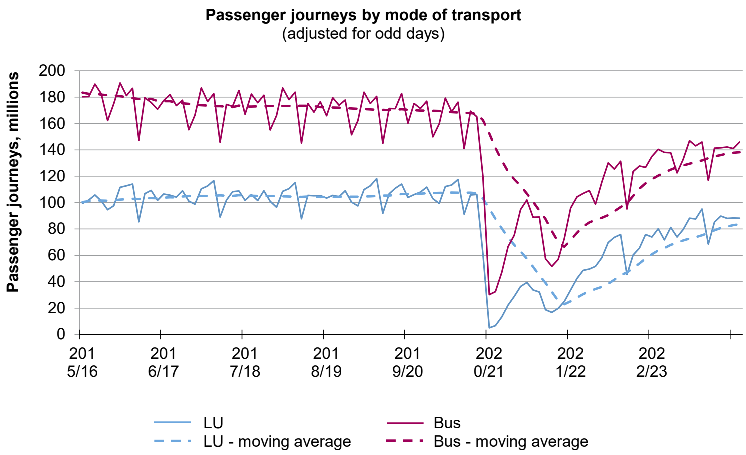
GLA Economics will continue to monitor London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

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

- 234.2 million passenger journeys were registered between 30 April and 27 May 2023, 4.9 million more than in the previous period. 229.3 million passenger journeys were registered between 1 April and 29 April.
- In the latest period, 88.2 million of all journeys were underground journeys and 146.0 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 220.6 in the previous period to 221.7 in the latest period.

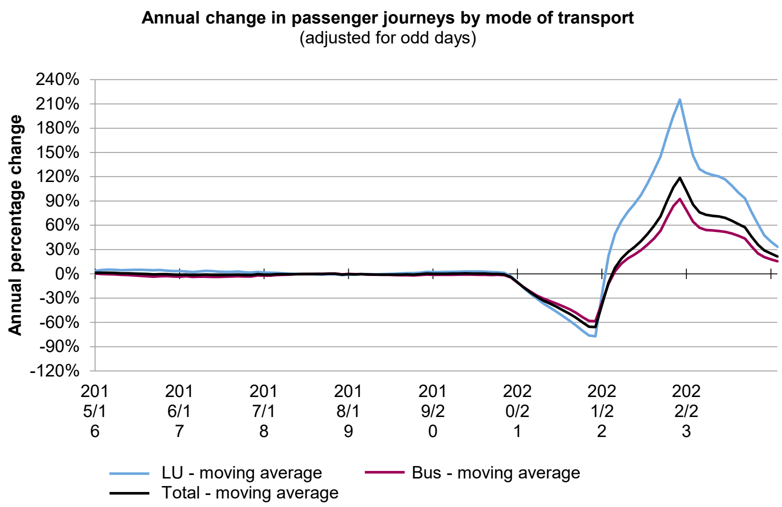
Source: Transport for London
Latest release: June 2023, Next release: July 2023



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 21.6% between 30 April and 27 May 2023, down from 25.0% between 1 April and 29 April 2023.
- The moving average annual growth rate of bus journeys decreased from 17.8% to 15.5% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 39.7% to 33.7% between those periods.

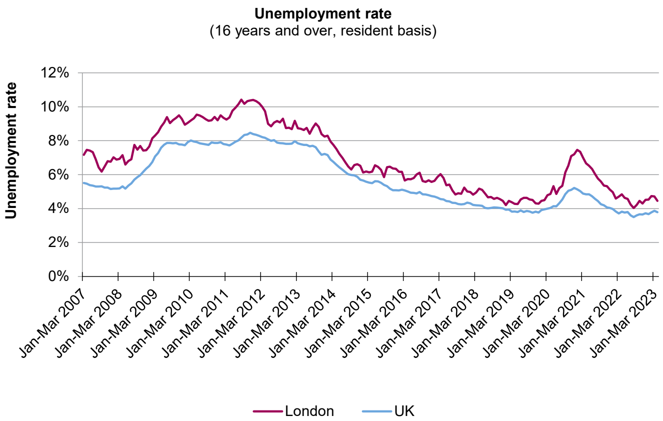
Source: Transport for London
Latest release: June 2023, Next release: July 2023



London's unemployment rate remains low

- Around 229,000 residents 16 years and over were unemployed in London in February – April 2023.
- The unemployment rate in London was 4.5% in that period, the same as in the previous quarter November – January 2023.
- The UK's unemployment increased slightly from 3.7% in November – January 2023 to 3.8% in February – April 2023.

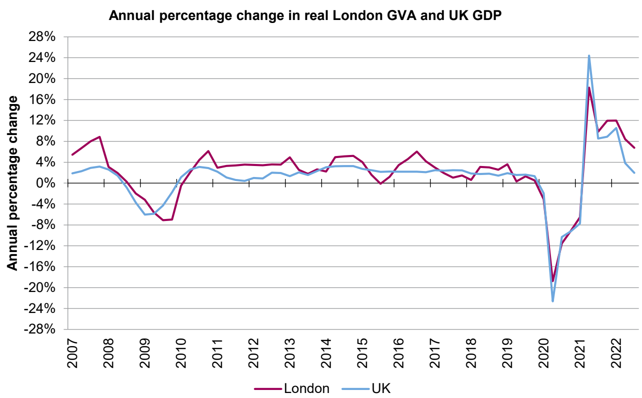
Source: ONS Labour Force Survey
Latest release: June 2023, Next release: July 2023



London's economy had surpassed pre-pandemic levels of output by Q4 2021, and continued to grow in Q3 2022

- By Q3 2022 London's GVA was 4.4% above its pre-pandemic level (Q4 2019), and UK GDP was 0.7% below.
- London's real GVA increased by 0.9% in Q3 2022 - compared with Q2 2022 - after increasing by 1.4% in the previous quarter.
- The UK's real GDP growth rate fell by 0.1% in Q3 2022 – compared with Q2 2022- after increasing by 0.1% 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.

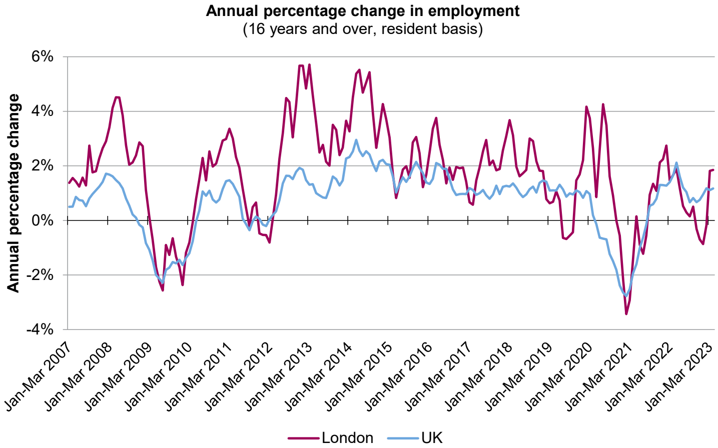
Source: ONS and GLA Economics calculations
Latest release: May 2023, Next release: August 2023



London's employment growth remained positive in the quarter to April 2023

- Around 4.9 million London residents over 16 years old were in employment during the three-month period of February – April 2023.
- The rate of employment growth was 1.8% in the year to this quarter, higher than in the previous quarter to January 2023 of -0.9%.
- The change in the UK's employment annual growth rate was 1.2% in the most recent quarter, slightly faster than the rate of 0.9% in the previous quarter.
- London's labour market remains a conundrum. The latest administrative data suggests that jobs numbers have started to fall contrary to the survey data reported here.

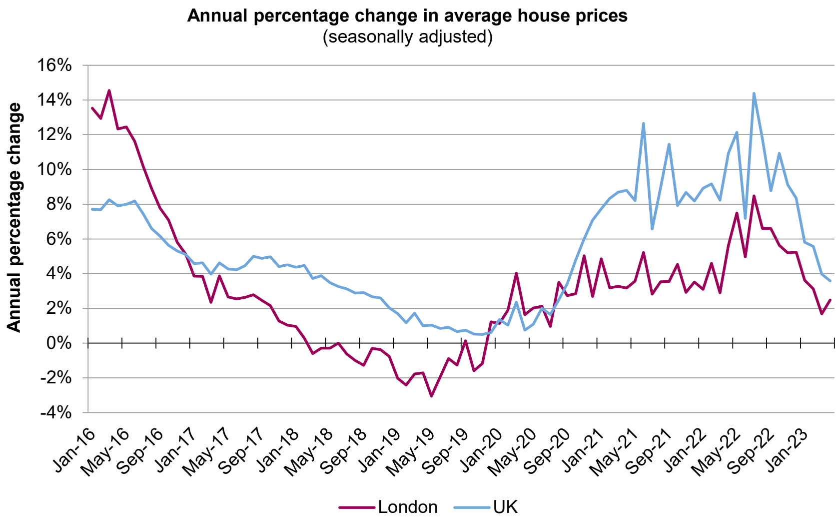
Source: ONS Labour Force Survey
Latest release: June 2023, Next release: July 2023



Annual house price growth in London remained positive, but continued to slow in April

- In April 2023, the average house price in London was £533,000 while in the UK it was £287,000.
- Average house prices in London rose by 2.5% year-on-year in April, more than the rate of 1.7% in March.
- Average house prices in the UK rose by 3.6% in April on an annual basis, lower than the rate of 4.0% in March.

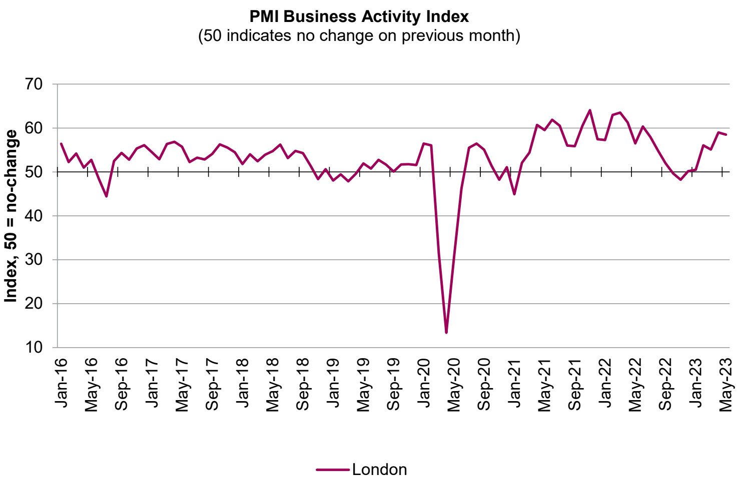
Source: Land Registry and ONS
Latest release: June 2023, Next release: July 2023



In May, the sentiment of London's PMI business activity index remained positive but decreased slightly

- The business activity PMI index for London private firms decreased from 59.0 in April to 58.5 in May.
- 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.

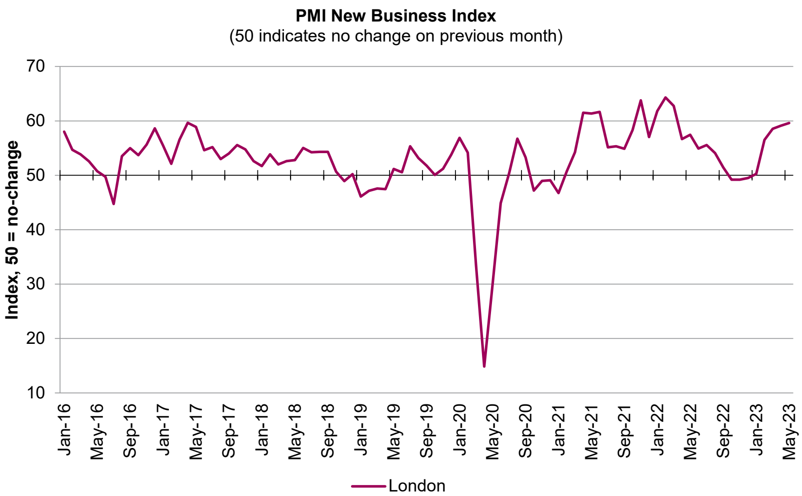
Source: IHS Markit for NatWest
Latest release: June 2023, Next release: July 2023



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

- The PMI new business index in London increased from 59.1 in April to 59.6 in May.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

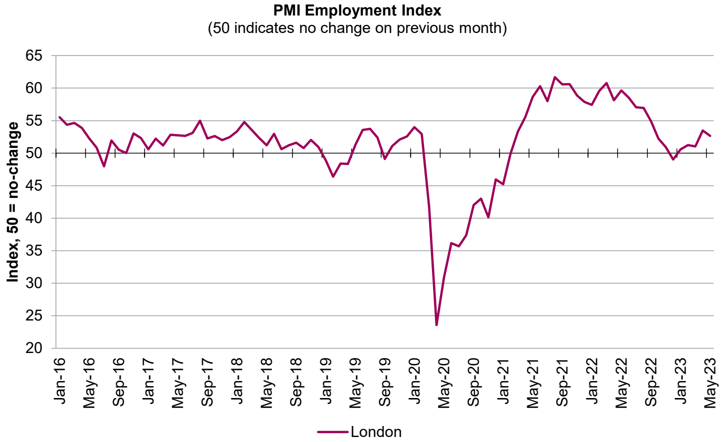
Source: IHS Markit for NatWest
Latest release: June 2023, Next release: July 2023



In May, the sentiment of the PMI employment index in London remained positive but decreased

- The Employment Index for London decreased slightly from 53.5 in April to 52.7 in May.
- 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.

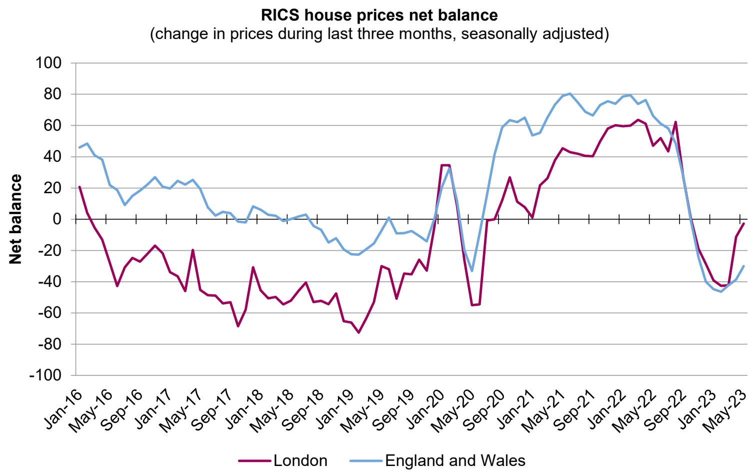
Source: IHS Markit for NatWest
Latest release: June 2023, Next release: July 2023



The number of property surveyors in London reporting house price falls in May improved but remained negative

- In May 2023, more property surveyors in London reported falling prices than rising prices. The net balance index was -3 and in April 2023 it was -11
- For England and Wales, the RICS house prices net balance index improved slightly from -39 in April to -30 in May.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

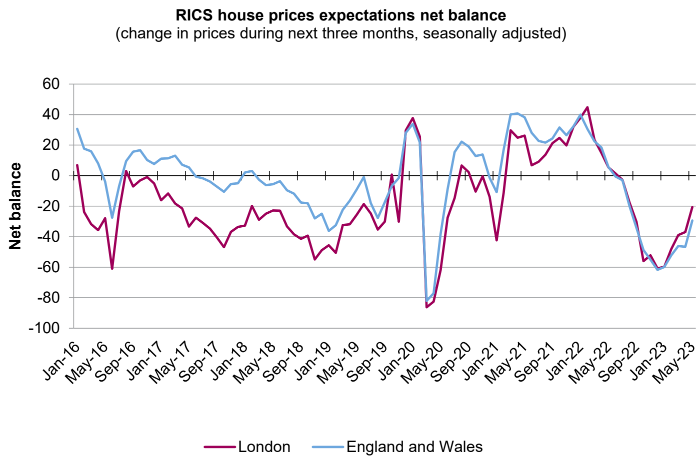
Source: Royal Institution of Chartered Surveyors
Latest release: June 2023, Next release: July 2023



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

- The net balance of house prices expectations in London was -21 in May 2023, up from -37 in April 2023.
- The index for England and Wales was -47 in April and -29 in May.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

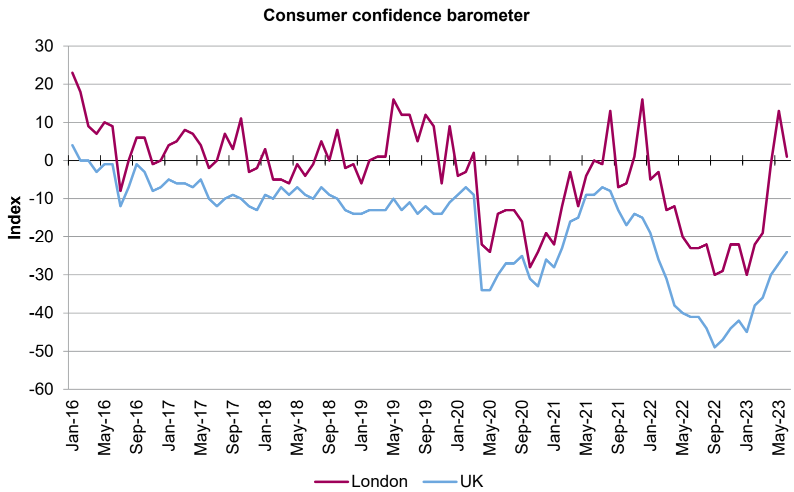
Source: Royal Institution of Chartered Surveyors
Latest release: June 2023, Next release: July 2023



Consumer confidence in London decreased noticeably in June and just remained positive

- The consumer confidence index in London declined from 13 in May to 1 in June.
- The sentiment for the UK improved from -27 in May to -24 in June. 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: June 2023, Next release: July 2023



London macroeconomic scenarios (June 2023 update)

James Watson, Economist

GLA Economics published its latest macroeconomic scenarios-based forecast for London on 20 June[1]. The two main outcome variables are real Gross Value Added (GVA) – a measure of London's output – and workforce jobs (WFJ) – a measure of employment. We project both variables over the medium term (to the end of 2025) and we also project GVA over the longer term (to 2033). In this context, we have developed three main macroeconomic scenarios for London founded on three sets of plausible narratives for the economy.

- Fast recovery (an optimistic but plausible scenario)
- Gradual economic recovery (the GLA Economics baseline reference scenario)
- Recession, slow recovery (a plausible pessimistic case)

These scenarios are not definite predictions about the only possible paths for the economy, nor do they necessarily incorporate optimal policy responses. Instead, they use judgements around several key assumptions. The key dimensions of variation focus on resilience to shocks and policy support, especially around the impact of rising inflation[2]. The scenarios do not capture the full range of uncertainty about the future, which is likely to be much wider.

1 These scenarios were developed as part of wider work on the impact of the COVID-19 pandemic on London's economy, and they have been informed by expert consultation and existing literature on pandemics and macroeconomic scenarios. See the list of GLA summaries on external research on COVID-19, which have frequently included summaries of macroeconomic scenarios and forecasts publications.

2 For more detail on these assumptions see slides 8 to 11.

Scenario 2 is our baseline, involving a gradual return to economic growth. After the rapid recovery of the last two years, this scenario anticipates a bumpy profile for output from late 2022 into mid-2023. Inflation at a 40-year high, rising interest rates and squeezed real incomes mean consumer demand is likely to slow. High costs, high rates and slowing demand will also drag on businesses' investment and hiring plans. But the labour market has proven strikingly resilient in recent months. As a result, we see activity swinging between contraction and expansion, avoiding a recession. Output averages stagnation between Q4 2022 and Q2 2023, though, reflecting a standstill outlook for the wider UK economy.

The baseline sees output pick back up to more normal growth rates from the middle of this year. London's labour market continues to show strength, while consumer and business confidence have both been higher in London than the wider UK. And while London's lowest-income households are particularly vulnerable to the cost of living crisis, average incomes in the capital are relatively high for the UK. Yet not all parts of the London economy will prove resilient. Consumer-facing sectors likely face a downturn and a slow recovery, as real incomes remain below pre-pandemic levels until next year. High interest rates will also drag on goods sectors and parts of the economy that depend on property markets. This mean Manufacturing, Construction and Real estate also face challenges. Our forecast now sees London's output failing to return to levels consistent with pre-pandemic projections.

Scenario 1, a plausible upside, involves a faster economic recovery. In this scenario, inflation eases more rapidly in the second half of 2023. London's stronger aggregate incomes and higher consumer confidence compared to the rest of the UK also offer a partial buffer against the cost of living. Richer households spend more of their pandemic savings. Lower inflation allows the Bank of England to stop raising interest rates earlier and the labour market stays strong. As a result, most consumers stay afloat with savings or manageable cutbacks. We also assume that still-positive business sentiment sees firms absorb higher costs and flagging demand by moderating hiring and investment, rather than making cuts. Output growth decelerates in late 2022, but does not contract, and momentum improves across 2023. Jobs pull back after the surge in Q1 2023, but pick up quickly across the rest of the year. As demand strengthens in the medium term, stronger business investment, less long-run unemployment and higher productivity eliminate long-term output scarring.

Scenario 3, a plausible downside, assumes that London slips into a recession lasting much of 2023. High food prices and falling real incomes hit the poorest households the hardest, and because lower-income households tend to spend more of their income, overall consumer demand suffers heavily. Inflation expectations rise, driving up wage demands and costs. Despite weakening growth, the Bank of England is forced to aggressively raise interest rates to prevent an even longer inflation overshoot. Rising global interest rates also create further turbulence in the financial sector, with more bank failures among the very riskiest lenders. Amid slowing demand, high borrowing costs, tighter lending conditions and rising input prices, businesses cut investment and hiring plans. London's output takes until 2025 to recover to Q3 2022 levels. Jobs also fall back, contracting for nearly a year, and taking until the second half of 2024 to recover. A fresh downturn and slow medium-term growth mean firms close and workers lose their jobs, which creates serious long-term economic scarring.

Figures A1 and A2 show the estimated recovery path of London's output and jobs across the three scenarios described above.

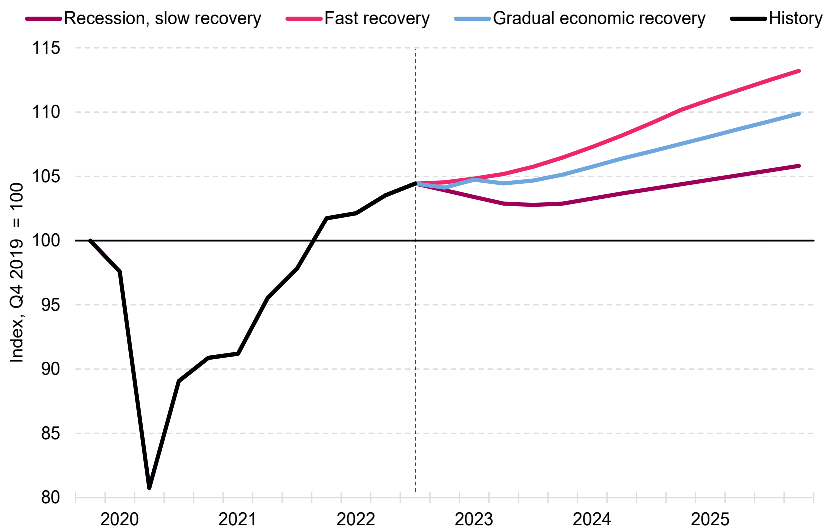


Figure A1: Shape of the output recovery in London (index)

Source: GLA Economics, ONS

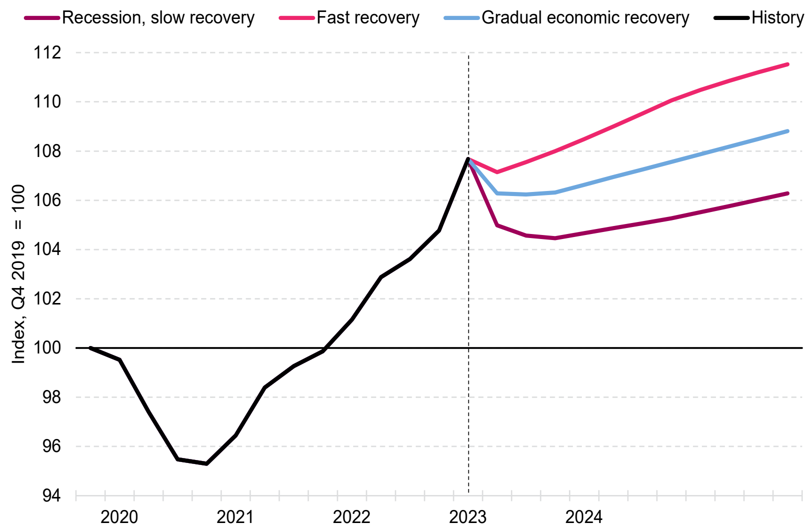


Figure A2: Shape of the jobs recovery in London (index)

Source: GLA Economics, ONS

Overall, the medium-term paths for output and employment are mostly higher now than expected at the peak of the crisis. Yet the balance of risk is still skewed to the downside. GVA in the slow recovery scenario ends 2025 nearly 4% below the baseline, while the upside ends 2025 around 3% above baseline. The wide gap between scenarios also demonstrates the high uncertainty around economic conditions.

The main results are presented below:

Headline recovery in the medium term (2023 to 2025)

Under the **gradual return to economic growth scenario**, our baseline, **London's real GVA is set to grow a moderate 1.1% this year**. This is a marked improvement on December's forecast of a -0.4% contraction in 2023, but it is also well below 2022's estimated growth of 7.2%. Weak quarterly momentum in 2023 gives way to a recovery and **growth picks up in 2024 (1.8%) and 2025 (2.2%)** (Figure A3).

The jobs recovery recently pulled ahead of output. Despite a pull-back later this year, record growth in early 2023 means **employment is set for very strong growth of 3.4% in 2023**. Soft momentum later in the year translates into **a sharp deceleration in 2024 (0.4%), before growth normalises in 2025 (1.2%)** (Figure A4).

Under the fast economic recovery scenario, demand continues to largely shrug off the cost of living crisis. In this scenario, output rises 1.8% this year, accelerating to 3.0% growth in 2024 and 3.1% in

2025. **Employment also proves resilient**, with even stronger growth of 4.4% in 2023, followed by steady 1.6% growth from next year.

In the slow economic recovery scenario, output faces another recession. GVA contracts 0.5% in 2023, and the recovery is softer, with output growth reaching a soft 0.8% in 2024 and a moderate 1.4% in 2025. After more moderate growth of 2.3% in 2023, **jobs contract in 2024**, falling 0.4%. Employment growth then picks up, but to a still-weak 0.9% in 2025.

GLA Economics projections had previously been getting weaker for output and jobs over successive iterations of our scenarios. **But the latest iteration is reversing this trend**, with the projected level of output back to what we expected a year ago.

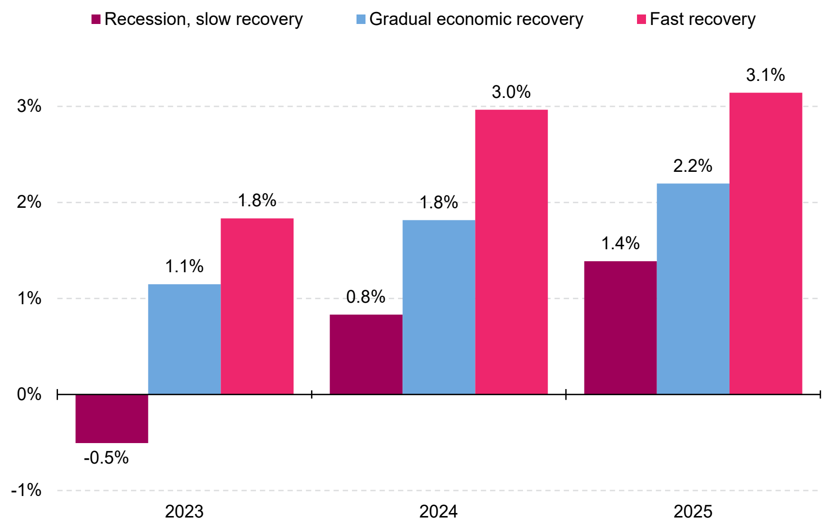


Figure A3: Medium-term real GVA projections, annual growth rates

Source: GLA Economics, ONS

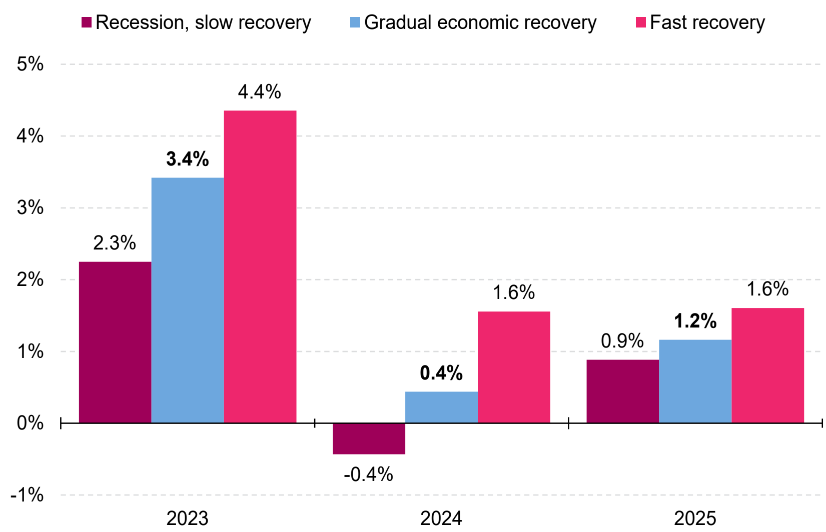


Figure A4: Medium-term Workforce jobs projections, annual growth rates

Source: GLA Economics, ONS

Sectoral output recoveries in the medium term (2023 to 2024)

London's economic recovery is set to vary widely across industries (Table A1).

Service sectors most affected by the pandemic will see output remain above 2019 levels after a strong 2021 and 2022. Examples include **Accommodation and food services**, where output in 2024 will be nearly 20% above 2019 levels, and **Arts, entertainment and recreation** and **Wholesale and retail trade**.

Goods sectors look set to suffer in the medium term as high interest rates drag on parts of the economy most dependent on durable goods. This includes **Construction, Manufacturing and Transportation**. By depending on the property market, **Real estate** is also exposed to high interest rates. **All these sectors contract in 2023**.

London's key **knowledge-sector export industries are set for resilient growth**, such as **Information and communication, Financial services and Professional services**.

Public services are set to pull back in the medium term, as tighter spending plans drag on output in this area from next year.

Table A1: London's real GVA by industry in 2023 and 2024

Real GVA	% diff from 2019		Annual growth	
Sector	2023	2024	2023	2024
Agriculture, forestry and fishing	-6.5	-5.6	0.1	1.0
Mining and quarrying	16.0	18.6	4.7	2.3
Manufacturing	-8.2	-7.2	-2.2	1.1
Electricity, gas, steam and air-conditioning supply	-6.8	-4.2	2.0	2.8
Water supply; sewerage and waste management	-0.1	2.7	0.7	2.8
Construction	-13.0	-11.7	-1.1	1.5
Wholesale and retail trade; repair of motor vehicles	7.6	9.3	1.8	1.6
Transportation and storage	-36.6	-35.0	-2.6	2.4
Accommodation and food service activities	17.9	19.7	4.9	1.5
Information and communication	22.8	26.0	3.8	2.6
Financial and insurance activities	18.5	21.1	0.9	2.2
Real estate activities	-9.4	-7.2	-1.1	2.4
Professional, scientific and technical activities	8.0	10.8	1.7	2.6
Administrative and support service activities	11.8	13.4	2.1	1.5
Public administration and defence	5.7	5.1	2.2	-0.6
Education	-6.4	-6.7	-1.1	-0.4
Human health and social work activities	-0.9	-1.4	1.4	-0.5
Arts, entertainment and recreation	16.9	18.8	1.8	1.6
Other service activities	-29.2	-27.9	-1.3	1.9
Activities of households	-43.8	-42.7	-2.6	1.9

Source: GLA Economics.

Note: colour coding shows the most negative results in red, the most positive results in green, and results in the middle in white. Small, volatile sectors are shaded grey to avoid disrupting the scale.

Sectoral employment recoveries in the medium term (2023 to 2024)

Workforce job projections show that **for some sectors, London's labour market recovery will still be incomplete** by the end of 2024 (Table A2).

Goods sectors mostly lag pre-pandemic levels. This includes **Manufacturing, Construction and Transportation** – the first two of which will also contract in 2023.

Consumer-facing sectors see a contraction in Q1 or Q2 2023, with soft momentum beyond. Jobs fall in mid-2023 for **Wholesale and retail** and **Accommodation and food services,** but both escape a contraction across the year. The large Q1 2023 drop for Arts and entertainment sees that sector fall across the year on average.

London's core specialist service sectors mostly see strong growth in 2023, before momentum normalises in 2024. **Information and communication** and **Professional services** are set for the strongest job growth of any major sectors in 2024.

Areas of the economy dominated by **public sector jobs are projected to contract in 2024**, though most remain above pre-pandemic levels of employment.

Workforce jobs	% diff from 2019		Annual growth	
Sector	2023	2024	2023	2024
Agriculture, forestry and fishing	6.7	6.8	23.1	0.1
Mining and quarrying	-11.1	-10.4	0.0	0.8
Manufacturing	-0.8	-0.4	-1.2	0.4
Electricity, gas, steam and air-conditioning supply	33.6	35.0	14.5	1.1
Water supply; sewerage and waste management	12.9	14.1	-4.6	1.1
Construction	-7.9	-7.6	-0.4	0.3
Wholesale and retail trade; repair of motor vehicles	2.0	2.9	0.6	0.8
Transportation and storage	-5.5	-4.4	5.0	1.2
Accommodation and food service activities	-1.4	-0.8	8.4	0.6
Information and communication	21.4	23.5	5.0	1.7
Financial and insurance activities	19.9	20.8	7.7	0.7
Real estate activities	19.9	20.6	6.8	0.6
Professional, scientific and technical activities	15.5	17.4	3.2	1.7
Administrative and support service activities	1.2	2.1	5.7	0.9
Public administration and defence	10.3	8.2	1.7	-1.9
Education	1.7	0.0	-4.5	-1.7
Human health and social work activities	8.7	6.9	4.1	-1.7
Arts, entertainment and recreation	10.1	11.1	-3.4	0.8
Other service activities	15.9	14.9	15.1	-0.8
Activities of households	7.1	17.8	-9.4	10.0

Table A2: London's workforce jobs by industry in 2023 and 2024

Source: GLA Economics.

Note: colour coding shows the most negative results in red, the most positive results in green, and results in the middle in white. Small, volatile sectors are shaded grey to avoid disrupting the scale.

Long-term projections (2025 to 2033)

Looking at the longer term, **GLA Economics now projects that real GVA levels will not return to pre-crisis trends**. A succession of economic challenges mean we now expect long-term output scarring of around 4% (Figure A5).

In our fast economic recovery scenario, output pushes above this pre-crisis trend in the next five years, helping push London's growth back towards long-term averages.

The slow recovery scenario sees London's output well below the counterfactual in the long term. Heavy scarring in the medium term raises structural unemployment, cuts investment and hits agglomeration benefits, lowering long-term output growth.

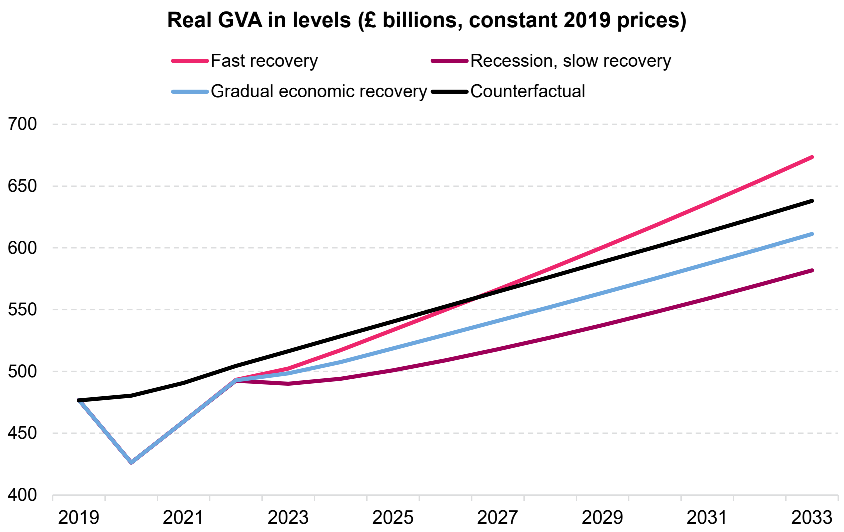


Figure A5: London's real GVA in levels (£ billion, constant 2019 prices) under all scenarios

Source: GLA Economics

The scenario results presented in this supplement come within a context of continuing unprecedented uncertainty. **Overall, GLA Economics judges that risks are tilted to the downside**, especially with **high inflation proving more persistent than hoped**, lowering real consumer incomes and prompting yet more interest rate rises. **Other headwinds also skew risks to the downside**, including the war in Ukraine, financial sector turbulence, falling house prices, a potential US recession later this year, and the risk of skill and geographic labour mismatches due to remote working. Therefore, **GLA Economics will continue to track the economic data to review these scenario outcomes in the future**. Successive updates will be released on the London Datastore.

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This report from GLA Economics looks at the provision of cultural services in London and nationally, who engages with those services, and the role of public funding.

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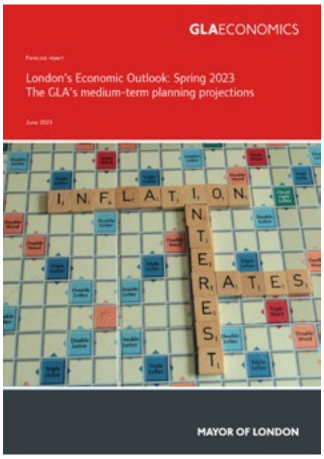

London's Economic Outlook: Spring 2023
GLA Economics' 42nd London forecast suggests that:

London's real Gross Value Added (GVA) growth rate is forecast to be 1.1% in 2023 as the cost of living crisis slows down the post-pandemic economic rebound. Growth is expected to improve to 1.8% in 2024 and 2.2% in 2025.

Download the full publication.

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

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