

London's Economy Today

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UK enters recession at the end of 2023

By **Gordon Douglass**, Supervisory Economist, **Mike Hope**, Economist and **Sixia Zhang**, Economist

Data published by the Office for National Statistics (ONS) in mid-February showed that the UK had entered a recession in the second half of 2023. After contracting by 0.1% in Q3 2023 GDP fell by a further 0.3% in Q4 2023 (Figure 1). A contraction of GDP in two consecutive quarters of the year is generally taken as a recession. This follows on from poor growth in GDP throughout 2023 with UK output not growing in Q2 2023 and by only 0.2% in Q1 2023. This means that overall, UK GDP only increased by 0.1% throughout the course of 2023. This followed on from post pandemic growth of 4.3% in 2022.

In Q4 2023 all three main sectors of the economy contracted. Output in the services sector contracted by 0.2% after also contracting by 0.2% in Q3 2023. Output in the production sector fell by 1.0% in Q4 2023 after increasing by 0.1% in the previous quarter. And in construction output declined by 1.3% in Q4 2023 following growth of 0.1% in Q3 2023. The ONS notes that the biggest contributor to the decline in services output came from a 0.6% fall in the wholesale and retail trade, with a "1.3% fall in wholesale trade, except of motor vehicles and motorcycles and a 0.9% fall in retail trade, except of motor vehicles and motorcycles".



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Datastore

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

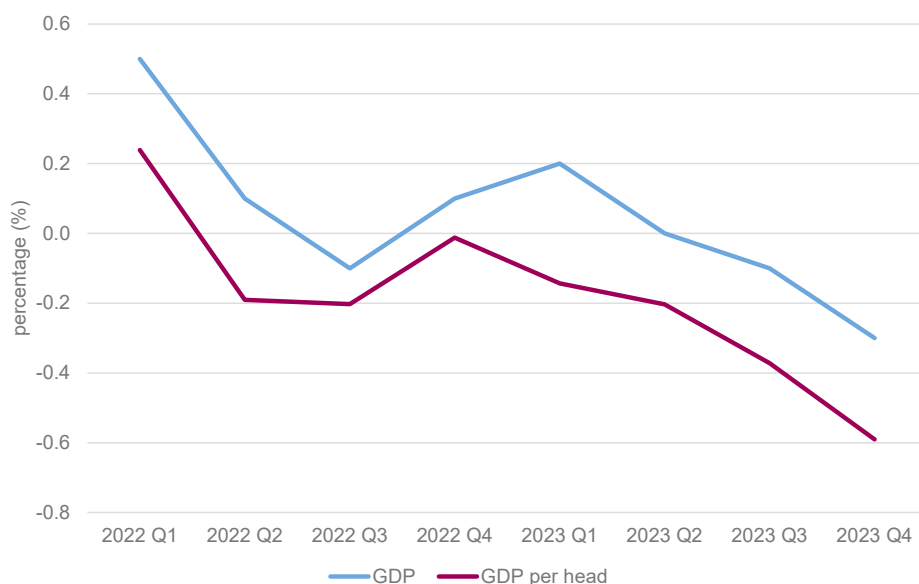


Figure 1: Quarter on quarter growth rates of UK GDP and GDP per head, Q1 2022 to Q4 2023

Source: ONS

Although this drop in GDP is relatively small other measures of the economy’s growth have also been weak. For example, the growth in GDP per head, the amount of output produced in the UK divided by the number of people in the country, has been declining since Q2 2022 (Figure 1) and declined by 0.7% over 2023 as a whole. This is the longest recorded decline in this measure since records began in 1955.

Commentating on UK GDP Andrew Bailey, the Governor of the Bank of England, said that by historical standards “this is the weakest recession by a long way”. While also saying that there were “distinct signs of an upturn” meaning that the economy may have returned to growth. Some indication to support the view that growth has resumed comes from ONS data on retail sales that saw strong growth in January. Thus, sales volumes increased by 3.4% in January compared to a fall of 3.3% in December.

UK inflation remains steady in January

Despite the UK economy stagnating in 2023 inflation remains well over the Bank of England’s central symmetrical target for Consumer Prices Index (CPI) Inflation of 2%. Thus, after surprisingly increasing in December 2023 (CPI) inflation remained unchanged at 4% in January 2024 (Figure 2)

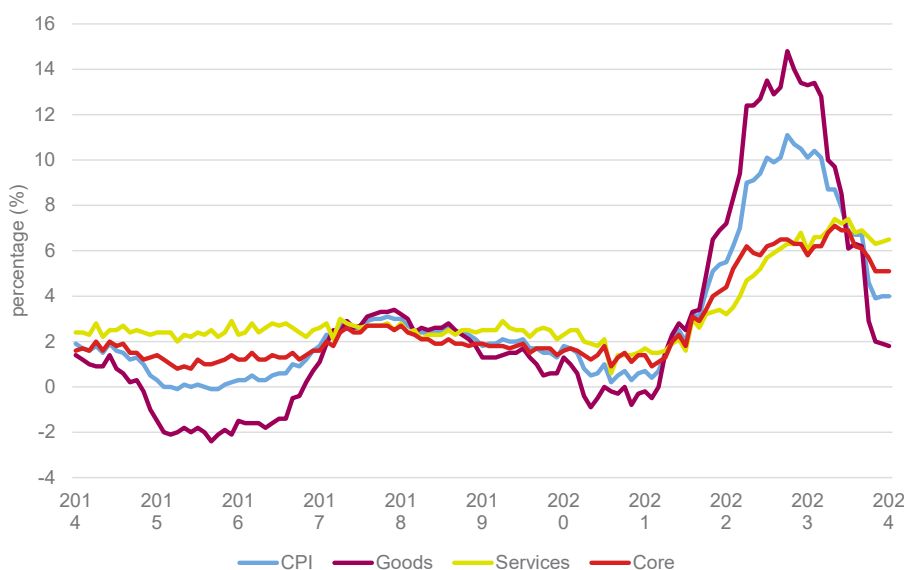


Figure 2: CPI, goods, services and core inflation, January 2014 – January 2024

Source: ONS

However, of the components of inflation most either increased slightly, did not fall or only saw a marginal fall such as goods inflation which fell from 1.9% in December to 1.8% in January. Services inflation

increased slightly (from 6.4% in December to 6.5% in January) and the core inflation rate (which excludes volatile energy, food, alcohol and tobacco) stayed steady at 5.1% for the third month in a row. Still analysts expect inflation to drop in the coming months in part due to the announced fall in the energy price cap in April. Ofgem has said that this will decline by 12% and will see a typical household paying £1,690 per year, down from £1,928 at present. Although this remains well above the average household bill seen before the Russian invasion of Ukraine in 2022.

Bank forecasts that inflation may soon temporarily hit its target

Looking forward the Bank of England published its latest Monetary Policy Report at the beginning of February. In this the Bank now expects inflation to fall to around its target 2% rate “within a few months, before rising slightly again” to finish the year at around 2.75%. The Bank noted that recent downward pressures on inflation were “broad-based, reflecting lower fuel, core goods and services price inflation”. Adding that “although still elevated, wage growth has eased across a number of measures and is projected to decline further in coming quarters”.

Looking at GDP, the Bank thinks that its growth “is projected to pick up gradually during the forecast period. That in large part reflects a waning drag on the rate of growth from past increases in Bank Rate. The impact of fiscal policy and relatively weak potential supply growth ... pull down on GDP growth throughout the forecast period relative to historical averages. Four-quarter GDP growth recovers to 1½% by the end of the forecast period”. This forecast for improving but historically sluggish UK growth was also supported by the International Monetary Fund (IMF) in their latest World Economic Outlook forecast, which was published at the end of last month. In this they forecast that the UK economy will grow by 0.6% this year (unchanged on their previous forecast in October 2023) before picking up to 1.6% growth in 2025 (a 0.4 percentage points (pp) downgrade on their previous forecast).

World economic growth expected to pick up

The IMF has been improving its forecasts for the world economy with it expecting the global economy to grow by 3.1% in 2024 (a 0.2pp upgrade on its October forecast) and 3.2% in 2025 (unchanged on its previous forecast). They did observe that these growth rates are below the 3.8% historic average seen for the world economy between 2000-19. While further noting that “...important divergences remain. We expect slower growth in the United States, where tight monetary policy is still working through the economy, and in China, where weaker consumption and investment continue to weigh on activity. In the euro area, meanwhile, activity is expected to rebound slightly after a challenging 2023, when high energy prices and tight monetary policy restricted demand”.

International visitor numbers to London return to pre-pandemic levels

By the third quarter of 2023 international visitor numbers to London were 95% of their pre-pandemic levels for the corresponding quarter of 2019, according to the ONS. (This measure removes seasonal variation in tourism.) Visitor nights were 27% higher, while spend (after inflation) was 12% lower. This compares with the first and last quarters of 2021 when visitor numbers were under 3% of pre-pandemic levels, (Figure 3). The sharp rebound in tourism in 2022 has been consolidated in 2023, although there is some volatility in trends compared with the corresponding quarter in 2019. In support of this, Heathrow monthly passenger statistics provide a similar picture in that numbers returned to pre-pandemic levels in 2023 Q3, and have remained there up to January this year.

At a more granular level tourism from North America is above pre-pandemic levels. Visits and spend by Europeans are lower than before, although nights are higher. Business nights overall have plateaued, and European business nights remain weak. Business spend has not returned to pre-pandemic levels for both Europe and North America. This suggests that developments in communication technology are reducing the need for business travel, and that reduced access to the European market after Brexit is having an effect.

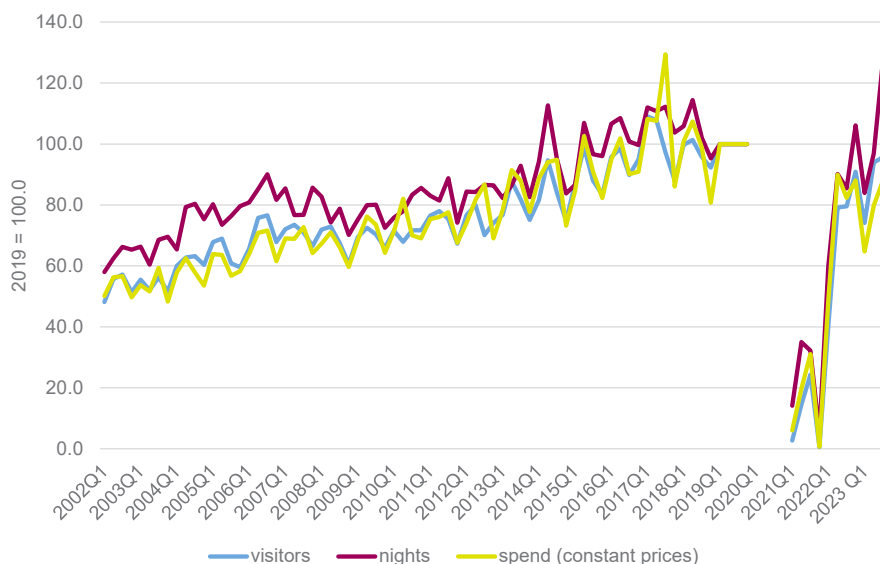


Figure 3: International visitors to London, 2002 Q1 to 2023 Q3

Source: ONS International Passenger Survey
Note: Spend figures have been deflated by the Consumer Prices Index

Big business groups have expressed the concern that the scrapping of VAT-free shopping for international visitors to the UK has placed the UK at a competitive disadvantage compared with other shopping destinations across Europe. Jeremy Hunt, Chancellor of the Exchequer has asked the Office for Budget Responsibility (OBR) to investigate the Exchequer revenue implications. The OBR will report back alongside the Budget on 6 March.

Bankers, lawyers and consultants more exposed to trade shocks

The Resolution Foundation published new research in February looking at Britain's exposure to trade shocks. The report observed that historically manufacturing has been most exposed to globalisation. Although manufacturing jobs in the UK economy have declined, increasing trade in other sectors of the economy have made these sectors more exposed to disruption from international competition. The report therefore notes that the "rise in trade openness means that jobs across industries are now more trade intensive and exposed to shocks". Adding that "the UK's shift towards tradeable professional services such as accountancy and banking – key areas of Britain's comparative advantage, which are concentrated in cities – mean that these high paid workers are now 18 per cent more exposed to trade today than they were in the early 2000s". This trade exposure has shifted from competition from imports into the country (as was the case for manufacturing) to shocks to the demand for UK's exports. In particular "the risk Britain faces today is less about domestic goods being replaced by cheaper overseas alternatives, and more about falling foreign demand for the services we sell overseas".

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

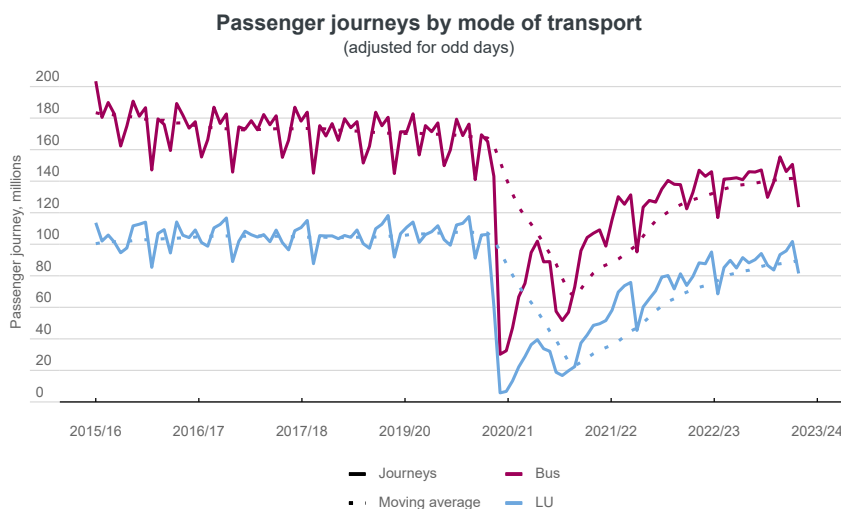
Economic indicators

The underlying trend in passenger journeys on London public transport rises slightly in December 2023

- 205 million passenger journeys were registered between 10 December 2023 and 6 January 2024, 47.4 million less than in the previous period. 252.4 million passenger journeys were registered between 12 November and 9 December 2023.
- In the latest period, 81.5 million of all journeys were underground journeys and 123.5 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose slightly from 230.6 million in the previous period to 232.1 million in the latest period.

Source: Transport for London

Latest release: February 2024, Next release: March 2024

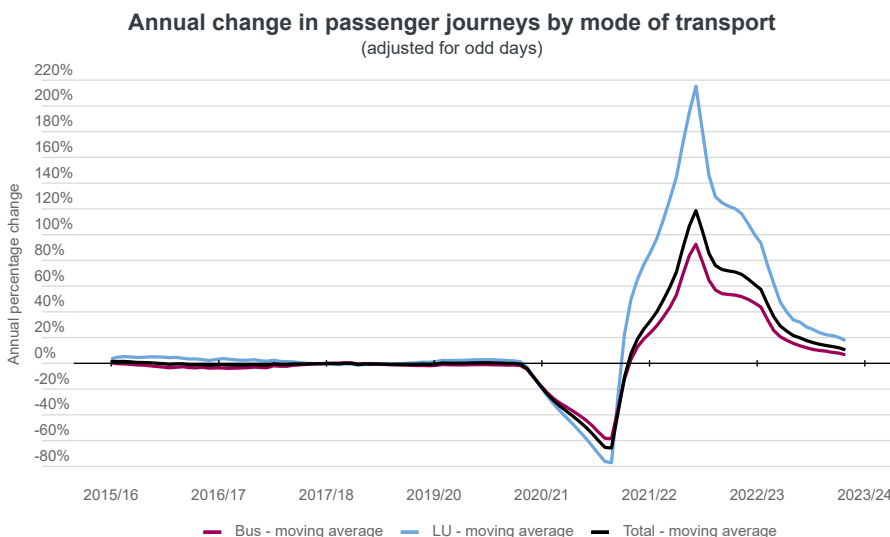


Annual growth in passenger journeys remains positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 10.5% between 10 December 2023 and 6 January 2024, down from 12.2% between 12 November and 9 December 2023.
- The moving average annual growth rate of bus journeys decreased from 7.9% to 6.6% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 20.1% to 17.7% between those periods.

Source: Transport for London

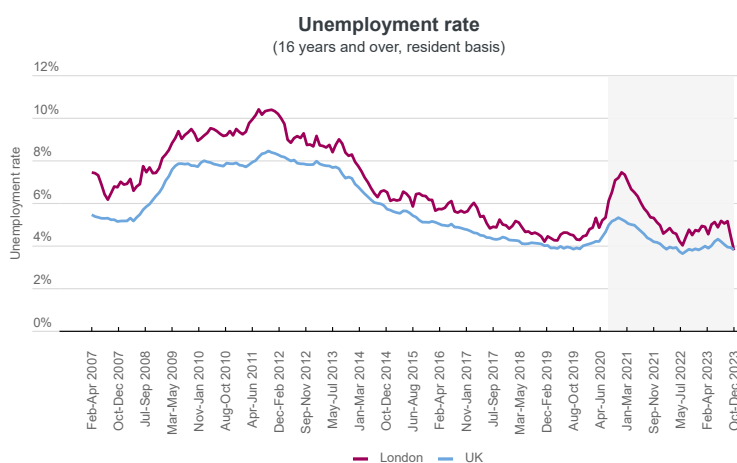
Latest release: February 2024, Next release: March 2024



London's unemployment rate fell over the last quarter

- Around 191,000 residents aged 16 and over were unemployed in London in the period from October to December 2023.
- The unemployment rate in London for that period was 3.8%, a significant decrease from 5.1% in the previous quarter, September - November 2023. This is a historical low over the past 30 years, although much of it may be accounted for by changes in data collection methods, and may reverse in future months.
- London's unemployment rate is now identical to the UK's overall figure.
- The UK's unemployment decreased slightly to 3.8% in October - December 2023, down from 3.9% in September - November 2023.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

Source: ONS Labour Force Survey Latest release: February 2024, Next release: March 2024

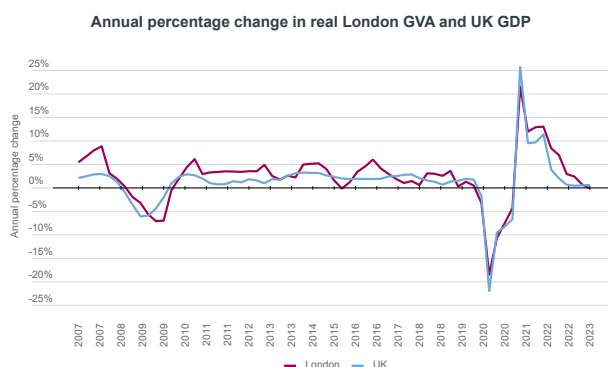


London's economy had surpassed pre-pandemic levels of output by Q3 2021, and growth has been slowing through 2022 and 2023

- By Q3 2023 London's GVA was 7.7% above its pre-pandemic level (Q4 2019), and UK GDP was 1.8% higher.
- London's real GVA rose by 0.1% in Q3 2023 - compared with Q2 2023 - after falling by 0.4% in the previous quarter. The UK's real GDP growth rate remained unchanged in Q3 2023 - compared with Q2 2023 - after increasing by 0.2% 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, and from Q1 2020 onwards have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which has not published up-to-date quarterly estimates for London's real GVA for the other periods.
- The ONS has upwardly revised UK GDP figures from 2020 onwards. GLA Economics has re-estimated ONS London data on a comparable basis, and produced its own estimate of growth for Q2 and Q3 of 2023.

Source: ONS and GLA Economics calculations

Latest release: December 2023, Next release: May 2024

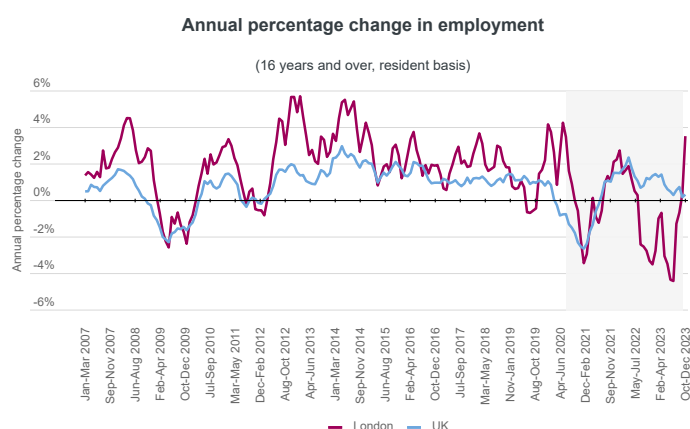


London's year-on-year employment growth rate turned positive in the quarter to December 2023

- Around 4.8 million London residents aged 16 and over were in employment during the three-month period from October to December 2023.
- London's annual change in employment rose by 3.5% in the year to this quarter, a significant increase, and compares with a 1.3% drop in the quarter leading up to September. Much of the difference may be accounted for by changes in data collection methods, and may reverse in future months.
- The most recent annual employment growth rate in London significantly exceeded the UK's figure of 0.3% in the latest quarter, which was a slight increase from 0.2% in the previous quarter.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

Source: ONS Labour Force Survey

Latest release: February 2024, Next release: March 2024

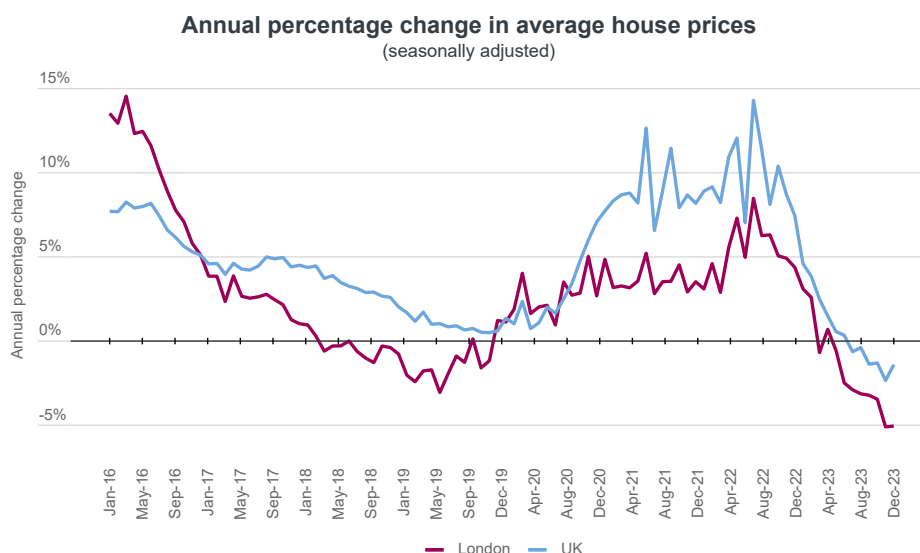


On an annual basis house prices fell in London in December 2023

- In December 2023, the average house price in London was around £505,000 while in the UK it was around £282,000.
- Average house prices in London fell by 5.1% year-on-year in December 2023, consistent with the decline observed in November.
- Average house prices in the UK decreased by 1.4% on an annual basis in December 2023, a smaller change than the fall of 2.3% in the year to November.

Source: Land Registry and ONS

Latest release: February 2024, Next release: March 2024

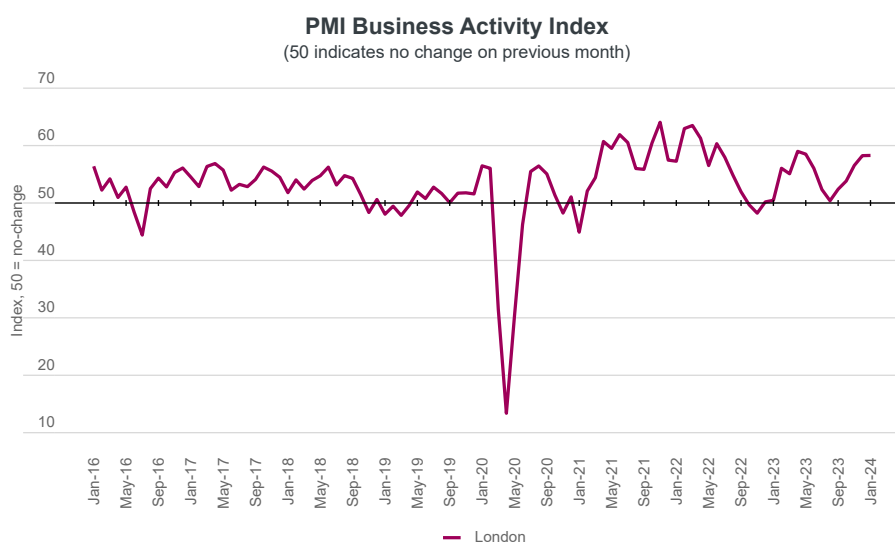


In January 2024, the sentiment of London's PMI business activity index remained positive

- The business activity PMI index for London's private firms increased marginally from 58.2 in December 2023 to 58.3 in January 2024.
- 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 2024, Next release: March 2024

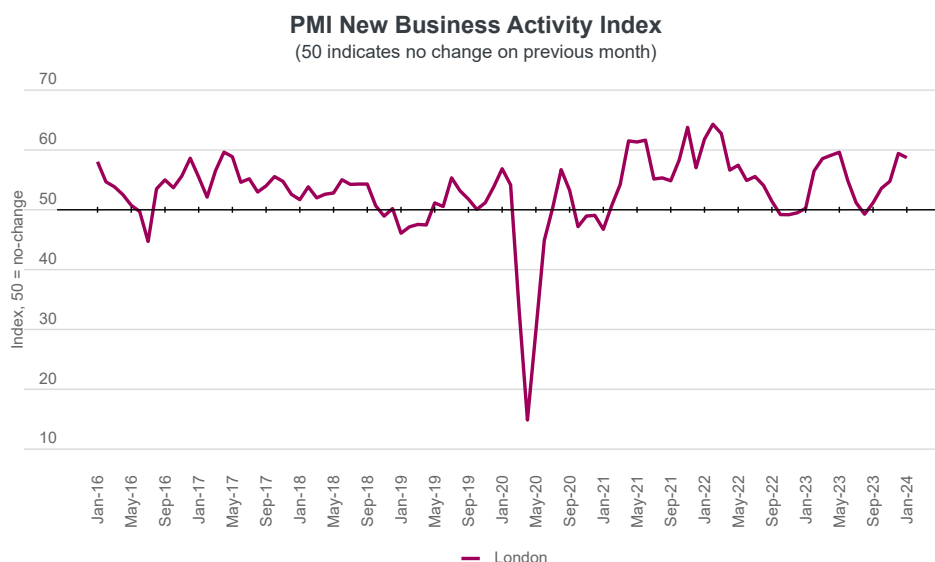


In January 2024, the sentiment of London's PMI new business activity remained positive but decreased slightly

- The PMI new business index in London decreased slightly from 59.4 in December 2023 to 58.7 in January 2024.
- 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 2024, Next release: March 2024

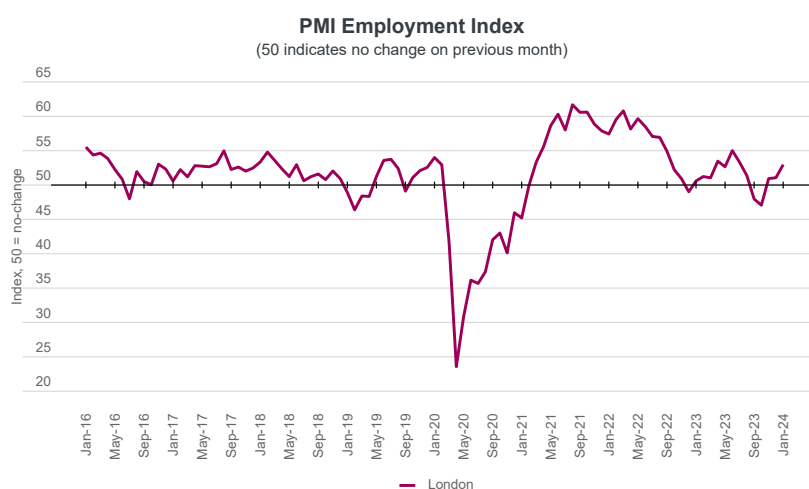


In January 2024, the sentiment of the PMI employment index in London remained positive and improved

- The Employment Index for London increased from 51.1 in December 2023 to 53.0 in January 2024.
- 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 2024, Next release: March 2024

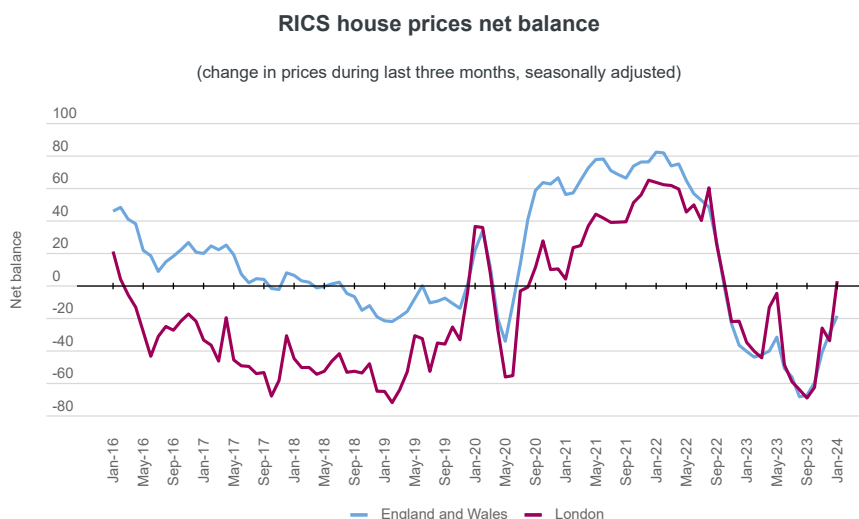


Over half of property surveyors in London reported house price increases in January 2024

- In January 2024, a greater number of property surveyors in London reported rising prices over falling prices. The net balance index significantly improved to 3 from -34 in December 2023, thus turning positive.
- For England and Wales, the RICS house prices net balance index improved from -29 in December 2023 to -18 in January 2024, remaining negative.
- 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 2024, Next release: March 2024

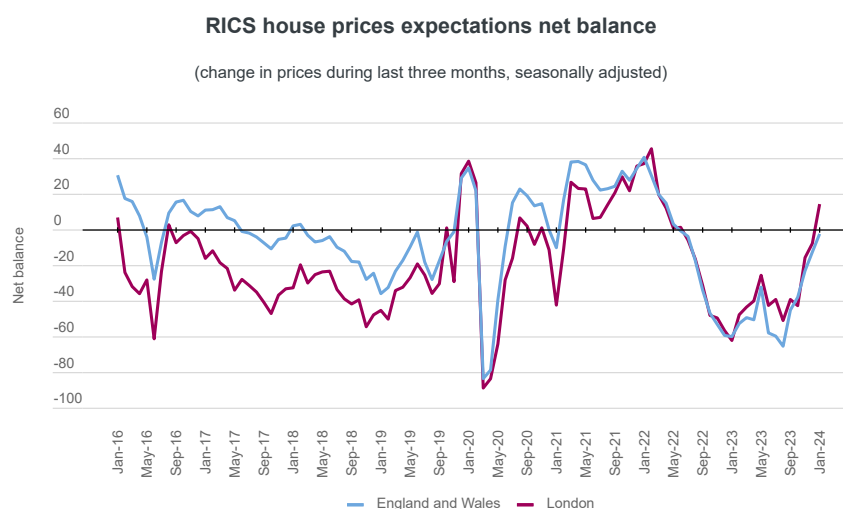


In January 2024, over half of property surveyors expressed positive expectations for house prices in London over the next three months

- The net balance of house prices expectations in London notably improved to 15 in January 2024, up from -8 in December 2023.
- The index for England and Wales was -2 in January 2024, showing an improvement from -12 in December 2023.
- 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 2024, Next release: March 2024

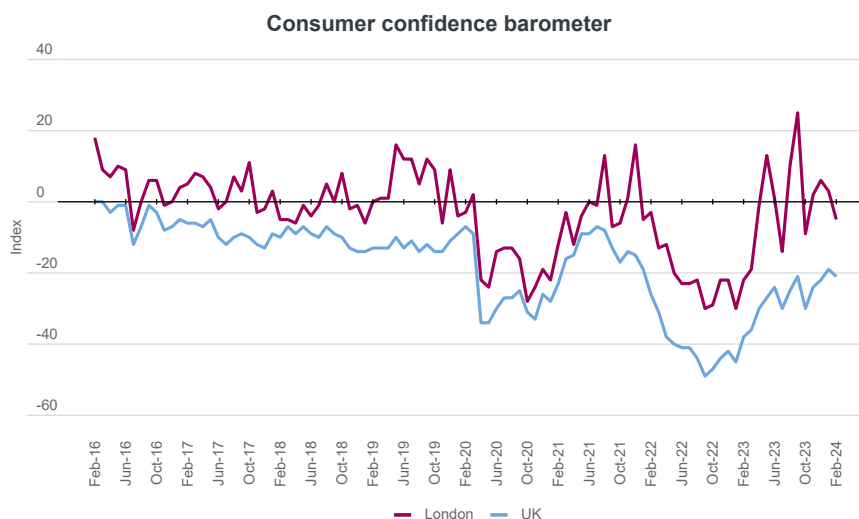


Consumer confidence in London turned negative in February 2024

- The consumer confidence index in London dropped from 3 in January 2024 to -5 in February. It has been volatile month-on-month around zero since the Spring 2023.
- The sentiment for the UK slightly decreased from -19 to -21 over the same period. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK

Latest release: February 2024, Next release: March 2024



The impact of Brexit on London's economy

By **Mike Hope**, Economist



A.1 Purpose

GLA Economics has published a stream of notes on Brexit from assessments of the relationship between London and Europe¹ and the likely effects of Brexit², to regular monitoring as part of London's Economic Outlook³. It has also asked external forecasters to provide assessments of the impact of Brexit^{4, 5, 6}. In January, GLA Economics published its own assessment of the impact of Brexit⁷, which this note summarises.

The sections below are on:

- Developments since the EU Referendum
- Examining Brexit's economic implications
- The GLA Economics Brexit counterfactual

1 Christie E and Douglass G (2017), [London and Europe: facts and figures](#), GLA Economics

2 Hope M (2019), [The Economic Impact of Brexit on London](#), GLA Economics

3 GLA Economics (2016, 2017a, 2017b, 2018a, 2018b, 2019a, 2019b, 2020a, 2020b, 2021a, 2021b, 2022a, 2022b, 2023). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections': editions from [Autumn 2016](#), [Spring 2017](#), [Autumn 2017](#), [Spring 2018](#), [Autumn 2018](#), [Spring 2019](#), [Autumn 2019](#), [Spring 2020](#), [Autumn 2020](#), [Spring 2021](#), [Autumn 2021](#), [Spring 2022](#), [Autumn 2022](#), [Spring 2023](#), [Autumn 2023](#)

4 Cambridge Econometrics (2018), [Preparing for Brexit](#), GLA

5 Centre for Economics and Business Research (2021). '[Trade and Cooperation Agreement – London impact](#)', January 2021

6 Cambridge Econometrics (2024), [London's Economy after Brexit: impacts and implications](#)

7 Hope M (2024), [The impact of Brexit on London's economy – 2023 report](#)

A.2 Developments since the EU Referendum

The UK voted to leave the European Union (EU) on 23 June 2016, and originally this decision was expected to take effect on 29 March 2019. This was extended to 31 December 2019 with a transition period to the end of the following year. There was an ongoing political stalemate in the UK Parliament, which was resolved following the election of the current government in December 2019 – this time with an explicit mandate to ‘get Brexit done’. In parallel, there were divergences between the negotiating goals and strategies of the UK and the EU⁸.

It was only around the end of the transition period (on 24 December 2020) that the UK and the EU reached an agreement on their future relationship, the Trade and Cooperation Agreement (TCA). This was signed on 30 December 2020, applied provisionally from 1 January 2021, and entered into force on 1 May 2021.

The key feature of the TCA for London's service exporting economy was that there was no mitigation for loss of access to the Single Market. These exporters now faced a range of non-tariff barriers (NTBs), including but not limited to:

- **Loss of equivalence-based access for the Finance sector.** Equivalence refers to “a process by which EU bodies assess whether a third country's regulatory regime for a particular financial-services product type meets EU standards and, therefore, whether the latter can be permitted to be sold to EU buyers”⁹. If the EU does not provide the UK with passporting rights, UK financial intermediaries would not be able to handle swap trades or sell financial products to EU-based customers. This is due to end in 2025 and will require the transfer of activity from London to the EU unless some further agreement is reached.
- **Loss of EU ‘data adequacy’ status as a result of the UK leaving the EU's General Data Protection Regulation (GDPR) protocol**, meaning that the UK's data protection rules are not recognised as comparable to those in the EU. This may mean that companies will not be able to freely pass personal information between the jurisdictions, especially if the UK continues to diverge from EU standards on this issue¹⁰.
- Difficulties for individuals to travel between the two jurisdictions for the purpose of providing a service;
- Non-recognition of UK-awarded qualifications by the EU requiring recognition by Member States.

By leaving both the Single Market and Customs Union as a result of the TCA, the UK opted for a ‘hard form’ of Brexit. In February 2020 the Government also announced details of a new migration regime which would apply to future EU and non-EU migrants. It would no longer be possible for low-skilled migrants from the EEA to come and work in the UK. For existing EEA citizens resident in the UK, the UK Government introduced the EU Settlement Scheme (EUSS). This enabled EEA and Swiss citizens resident in the UK by the end of the transition period and their family members to retain residency rights in the UK. 5.6 million people had obtained a grant of status by 30 June 2023 (with 2.1 million people holding pre-settled status)¹¹.

Leaving the EU has given the UK Government the ability to diverge in regulatory terms from the EU. Such divergence was not expected to be economically significant. Prior to leaving the EU, HM Government estimated that it might add 0.1% to GDP in the long run based on the assumption of improved regulatory efficiency¹². The government analysis would not indicate that more extensive deregulation would change the order of magnitude of this effect. In practice, the government has postponed regulatory divergence from the EU where it saw a threat to business interests. It also watered down the Brexit Freedoms Bill to take off the statute book EU inspired law.

8 GLA Economics (2020), [London's Economic Outlook: Spring 2020](#), 15 June

9 Tarrant A et al (2019), [Equivalence, mutual recognition in financial services and the UK negotiating position](#), UK Trade Policy Observatory, Briefing Paper 27

10 GLA Economics (2021), [London's Economic Outlook: Autumn 2021](#), 13 December

11 Home Office (2023), [EU Settlement Scheme quarterly statistics, June 2023](#), 24 August

12 Department for [Exiting the European Union \(2018\)](#), [Exiting the European Union: Publications: Publications - Technical Reference Paper](#)

The UK can also now sign its own trade agreements. The likely benefits are small, especially in comparison with the 4%¹³ loss in output from leaving the European Union. Joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) might increase long-run GDP by 0.04%¹⁴. A deal with Australia is estimated to increase UK GDP by 0.08% by 2035¹⁵, and one with New Zealand might increase UK GDP by 0.03% by 2025¹⁶.

A.3 Examining Brexit's economic implications

The expectation is that Brexit will diminish the UK's productivity compared with what it would otherwise have been. The labour market is likely to adjust, as in a flexible labour market the number of jobs is largely determined by supply. So, a decline in output from reduced trading opportunities feeds through into productivity.

Brexit has had a complex range of effects on the London and UK economies beginning after the EU Referendum, and continuing after the UK left the Single Market.

The introduction of trade barriers is associated with a worsening of the terms of trade, and so a fall in the exchange rate. This happened immediately after the EU Referendum. It led to higher import prices, and so higher inflation. The consequence is that Londoners' and Britons' purchasing power dropped.

The introduction of trade barriers also increased inflation¹⁷. Higher non-tariff barriers (NTBs) due to Brexit, such as increased paperwork and the application of phytosanitary standards, are affecting food price inflation and UK households' purchasing power.

Business investment ceased growing after the EU Referendum¹⁸, perhaps reflecting the uncertainty around the form Brexit would take, and a shift in management effort towards Brexit preparations. There was also an increase in investment to the EU. Post-pandemic investment growth has recovered to previous levels¹⁹.

In 2021, net Foreign Direct Investment (FDI) flows into London and the UK were negative from the disposal of UK companies' share and loan capital, and from a net increase in amounts due to foreign parent companies on the inter-company account²⁰. This suggests a retrenchment of asset positions in the UK. On the other hand, greenfield site developments have been more stable. The share of all projects from the EU in London has remained reasonably stable over the last ten years at around a third.

The dynamism and openness of London's business environment make it more vulnerable to external factors such as increased trade friction with the EU. Business start-ups have driven the growth in business numbers: research by TBR for GLA Economics showed that between 2004 and 2013 only 0.2-1.2% of London's firm population came from business in-migration from elsewhere in the UK, compared to 10-12% from business start-ups²¹.

Since the EU Referendum, there has been a pronounced fall in the net start-up rate in London, from 6.4% in 2016 to 1.0% in 2017, before partially recovering to 3.6% in 2018, and falling again during the pandemic. There has been a similar pattern for the rest of the UK²².

13 OBR (2023), [Economic and Fiscal Outlook – March 2023](#)

14 OBR (2023), [Economic and Fiscal Outlook – November 2023](#)

15 Department for Business and Trade and Department for International Trade (2021), [UK-Australia FTA: impact assessment](#)

16 Department for Business and Trade and Department for International Trade (2021), [UK-New Zealand FTA: impact assessment](#)

17 Bakker J et al (2023), [Brexit and consumer food prices: May 2023 update](#), London School of Economics Centre for Economic Performance

18 Hope M (2019), [The Economic Impact of Brexit on London](#), GLA Economics

19 Source: ONS

20 ONS (2023), [Foreign direct investment involving UK companies by UK country and region, \(directional\): inward](#)

21 Trends Business Research Ltd (2016) [The changing spatial nature of business and employment in London](#). Working Paper 73. London: GLA Economics.

22 GLA Economics calculations of ONS Business demography

Indeed, the introduction of trade barriers is likely to have disproportionately harmed small and medium-sized enterprises (SMEs), those firms with up to 250 employees. A GLA survey²³ in early 2021 found wide ranging impacts by size and sector extending beyond firms which trade directly with the EU.

After the EU Referendum in June 2016, UK total exports and imports increased. The exchange rate depreciation made exports more competitive, while the UK's integration in international supply chains may have increased demand for imports. After the onset of the pandemic, trade collapsed to below 2016 levels. This continued after the Trade and Cooperation Agreement (TCA) came into effect in the first quarter of 2021. There was some stockpiling of goods by businesses at the end of 2020 because of uncertainty about whether there would be a trade agreement.

There have been differing experiences of recovery after the pandemic for goods and services. Notably, goods exports have not returned to former levels. Exports of both goods and services dipped once the TCA came into effect. Initially goods exports picked up first, but service exports have had a stronger, and more sustained recovery. The volume of service exports is now 9% above its pre-pandemic peak, while goods exports remain 12% below their previous peak. UK imports of services fell after the introduction of the TCA but are now 11% above their pre-pandemic peak. Meanwhile, goods imports have broadly risen since the TCA, before falling off again in the last year – they remain below their pre-pandemic peak, (Figure A1).

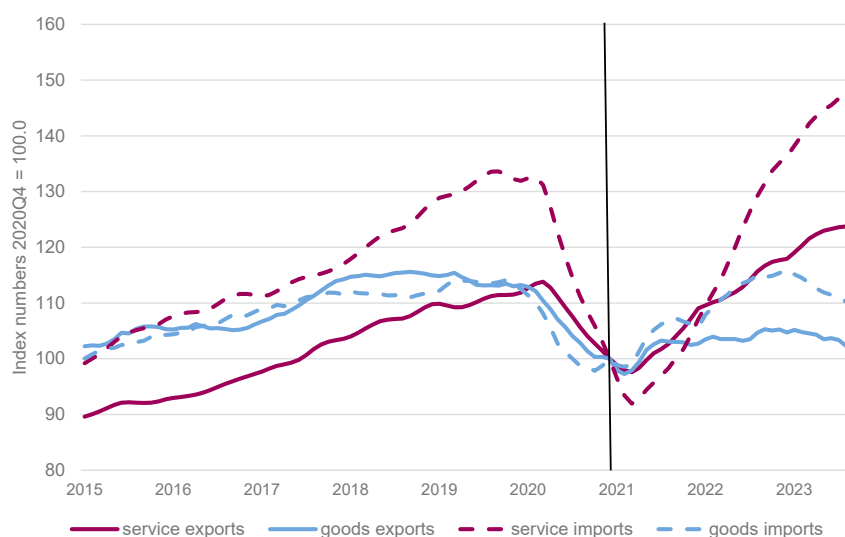


Figure A1: UK goods and services trade after inflation, annual moving average, January 2015 – August 2023, index numbers 2020 Q4 = 100.0

Source: ONS monthly trade statistics

Note: Inflation has been estimated for individual series by the ONS, and goods figures exclude precious metals

London's trade has followed a similar pattern to the rest of the UK. The post-pandemic trade rebound, though, has been stronger for London, despite exports to the EU declining in 2021. This suggests that London has been effective in finding ways to mitigate Brexit-related trade barriers.

Brexit has undoubtedly affected the flow of EU and non-EU citizens to and out of the UK. Net migration has risen sharply from 321,000 in the year to June 2016 to 672,000 in the year to June 2023. Over the same period net migration of EU citizens has been falling from a net inflow of 322,000 to a new outflow of 86,000, (Figure A2). London appears to have gained less than the UK from the inflow of non-EU workers and lost relatively more EU workers. There has been a marked decline in students, both children and adults, from the EU visiting or studying in the UK²⁴.

23 A survey conducted by YouGov between 5 and 19 March of 1,012 London businesses (owners or senior decision makers only).

24 GLA Economics (2023), [London's Economic Outlook: Spring 2023](#), 19 June

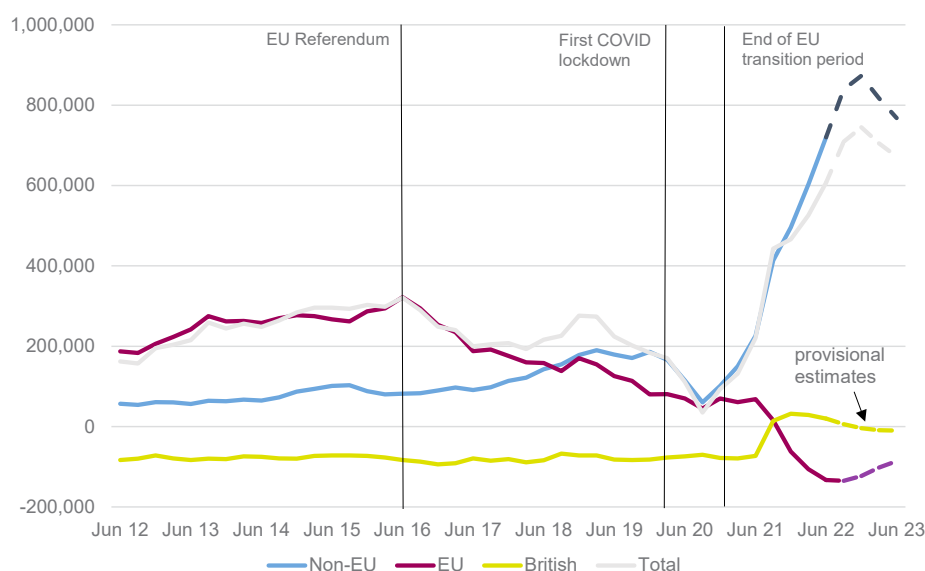


Figure A2: Non-EU, EU, and British nationals net migration to the UK between year ending June 2012 and year ending June 2023

Source: Office for National Statistics

The loss of free movement in low-skilled sectors of the economy is contributing to labour shortages. The new immigration system has, though, alleviated some workforce pressures through the introduction of entry visas, including for low paid work, on the NHS and social care sectors, and for seasonal agricultural workers. That said, the latest evidence does suggest that a new immigration regime that encourages high-skilled migrants and deters low-skilled migrants from the EU is likely to be beneficial for productivity²⁵. The subsequent tightening of the immigration system is likely to lessen these effects.

A.4 GLA Economics Brexit counterfactual

Since the June 2016 Referendum on the United Kingdom's membership of the EU, there have been many studies and assessments of that decision's impacts on the UK and its various economic sectors and regions, including London. Broadly speaking, the literature concurs that Brexit has been exerting pressures on the London and UK economies, to the detriment of long-term growth and prosperity.

GLA Economics used a synthetic control methodology to measure the impact of Brexit-related effects on London's economy. The control scenario features a composite combination of cities. The donor pool compares London with 19 global cities across the world, including major European capitals. The process of selection compares sector growth rates across cities as this captures a major attribute of London: its export-oriented service sector economy.

The main data source is S&P Global Market Intelligence data from their Regional Explorer²⁶ proprietary service, complemented by Bureau of Economic Affairs (BEA) data for US cities. S&P Global Market Intelligence collates data from national statistical agencies across the world for a selection of countries. Sub-national data, and specifically cities, is provided where it is available. This limits the choice of cities that can be used in the study. For the USA, S&P Global Market Intelligence uses a sector split which does not map easily onto data for other countries. Consequently, the data of the US national statistical agency has been used, namely the BEA.

Restricting the comparator pool to cities that have a population of over 5 million or are a major European capital (i.e., having similar demographic weight to London) gives 20 cities across the world for the study. It includes the European capitals of Berlin, Madrid, and Paris. The USA is represented by Chicago, Los Angeles, New York, and Philadelphia. For China, there is Beijing, Chongqing, Shanghai, and Tianjin. There is also Bangkok, Bogotá, Istanbul, Rio de Janeiro, Riyadh, Santiago, Seoul, and São Paulo. Non-US data uses the

²⁵ Portes J (2023), [UK migration and productivity](#), UK in a Changing Europe

²⁶ S&P Global Market Intelligence (2023), [Regional Explorer: Economics, risk, and data analytics](#)

International Standard Industrial Classification (ISIC)²⁷. US data uses North American Industry Classification System (NAICS)²⁸. A high-level mapping between the two classifications has been done.

Figure A3 compares London's actual output trajectory to the synthetic control. An algorithm chose the control as major European capitals.

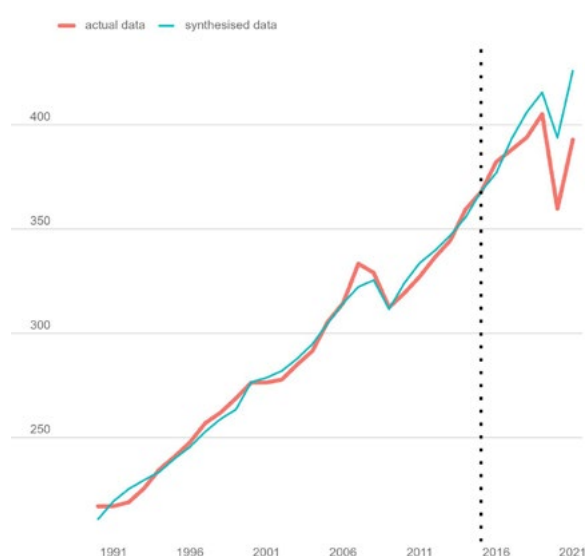


Figure A3: Comparison of London output, £ billions

Source: GLA Economics analysis of S&P Global Market Intelligence and BEA data

The counterfactual is estimated using a difference-in-difference calculation. London's GVA was 6.2% (or £32 billion) lower in 2019 than it would have been had the UK voted to remain in the EU. This is equivalent to £9,500 of potential foregone income for every household in London. We specifically highlight the impact in 2019 as this would exclude the impact of other substantial events (e.g., the COVID-19 pandemic) from the estimate, making Brexit a significant contributor to the result. In 2021, the analysis finds that London's GVA is 7.8% (or £41 billion²⁹, or £11,500 for every household³⁰) smaller than it would otherwise have been, as Table A1 shows, although that is likely to also capture the effect of COVID-19 and other events during that period, and so cannot be entirely attributed to Brexit.

Table A1: GLA Economics estimates for the Brexit counterfactual

2016	2017	2018	2019	2020	2021
-4.0%	-4.8%	-5.5%	-6.2%	-8.5%	-7.8%

Source: S&P Global Market Intelligence (for London) and BEA

Ultimately, this is a substantial loss of income for Londoners and the rest of the UK (who will now receive a smaller net contribution to the Exchequer³¹), leading to less money being available to support necessary public services across the whole country.

The modelling passes several robustness checks and uses data for a relatively long period (1990-2021). Other cuts of the data for the shorter period of 2001-2021 also passed the robustness checks.

²⁷ United Nations (2008), [International Standard Industrial Classification of All Economic Activities \(ISIC\), Rev. 4](#)

²⁸ Office of Management and Budget (2022), [North American Industry Classification System](#), Executive Office of the President

²⁹ GLA Economics calculations of ONS current price GVA data

³⁰ Using ONS Labour Force Survey estimates of the number of households

³¹ Douglass G et al (2023), [London's Economy Today](#), GLA Economics, 29 June

A.5 Conclusion

The decision to leave the EU after the 2016 Referendum has had a range of impacts on the London and UK economies – they started with the exchange rate depreciation after the vote, and were strengthened after the UK left the Single Market. London's output was 6.2% (or £32 billion) lower in 2019 than it would have been had the UK voted to remain in the EU back in 2016. This is nearly £9,500 of foregone income for every household in London. Brexit has been a complex, drawn out, and uncertain process, and it remains incomplete.

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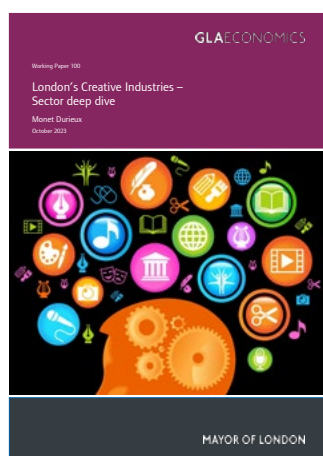
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City Hall
Kamal Chunchie Way
London E16 1ZE

Email glaeconomics@london.gov.uk

Internet www.london.gov.uk

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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.