GLAECONOMICS

London's Economy Today

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UK economy grows in September

By **Ali Ögcem**, Economist, **Gordon Douglass**, Supervisory Economist and **Sixia Zhang**, Economist

After seeing two months of zero growth in both June and July, data from the Office for National Statistics (ONS), published this month, showed that the economy grew by 0.2% in August (Figure 1).

The ONS estimates that all sectors of the UK economy grew in August. Output in the Services sector grew by 0.1% in August following growth of 1% in July. Output in the Production sector increased by 0.5% after falling by 0.7% in July and output in Construction grew by 0.4% in August following a decline of 0.4% in July. Real GDP is estimated to have grown by 0.2% in the three months to August, compared to the three months to May 2024.

UK inflation falls below target

In September UK inflation saw a surprising decline, with Consumer Price Index (CPI) inflation falling to 1.7% on an annual basis, down from 2.2% in August (Figure 2), according to new data from the ONS. This marks the first time inflation has dropped below the Bank of England's (BoE) central symmetrical target of 2% CPI inflation ±1% since April 2021. The surprising fall, which was driven by lower airfares and petrol prices, has increased market expectations of further rate cuts by the BoE, providing additional room for policy adjustments ahead of its November and December meetings.

Also in this issue

Datastore

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

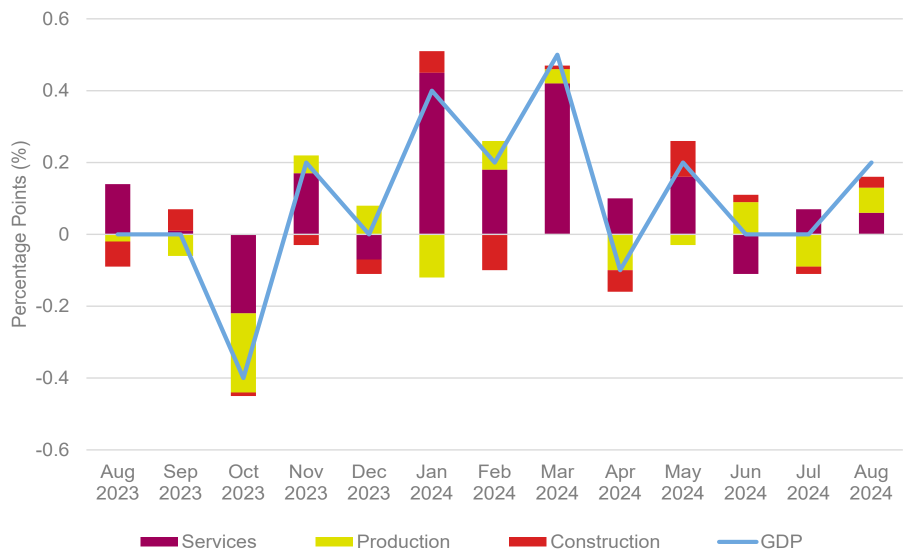


Figure 1: Contributions to monthly UK GDP growth, August 2023 to August 2024

Source: ONS

Core inflation, which excludes volatile components like food and energy, also eased to 3.2%, down from 3.6% in August. The fall in services inflation, a key measure of underlying price pressures for the BoE, was particularly notable, with prices in this sector rising by only 4.9%, a sharp drop from 5.6% the previous month. Lower airfares were a significant factor, along with a 10.4% decline in fuel prices compared to the same period last year. However, food and non-alcoholic drink prices continued to rise, with sharp increases in costs for milk, cheese, eggs, and fruit.

Despite the easing of inflationary pressures, concerns remain about the broader economic outlook. UK wage growth has slowed, with wages rising by 4.9% in the three months to August, down from 5.1% in the previous period. While this suggests that domestic price pressures may be softening, inflation is expected to tick up again later in the year as energy prices stabilize.

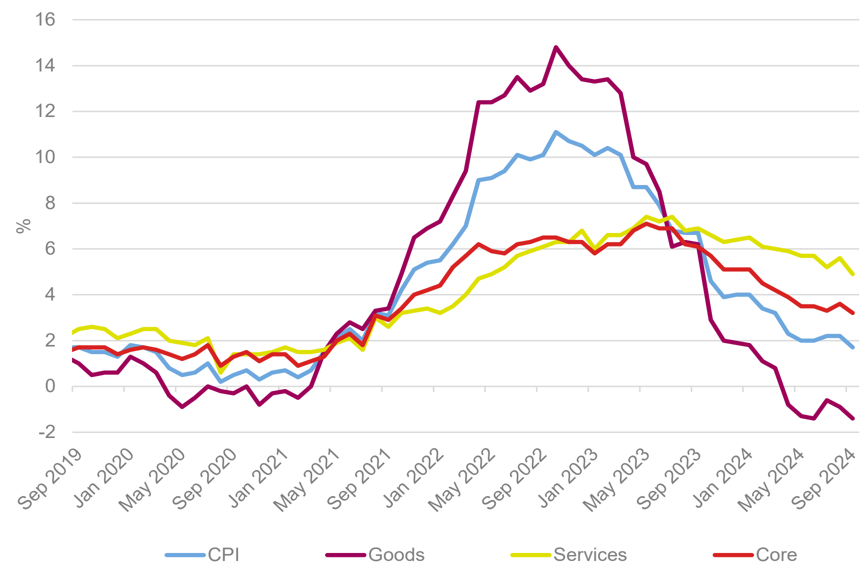


Figure 2: CPI, goods, services and core annual inflation rates, UK, September 2019 to September 2024

Source: ONS

The new government delivers its first Budget

The Chancellor of the Exchequer, Rachel Reeves, delivered her first Budget on 30 October 2024. This was delivered against a background of slow economic growth, with the latest forecast from the Office for Budget Responsibility (OBR), also published on the same day, forecasting economic growth of just over 1% for this year, rising to 2% in 2025 and then moderating to around 1.5% annually. Inflation is expected to peak at 2.6% in 2025, with a gradual return to 2% by 2029, while public sector debt is forecast to stabilize at approximately 97.1% of GDP by the end of the forecast period in 2029-30.

The Chancellor announced several tax changes that she stated would raise £40 billion in revenue. These included:

- National Insurance Contributions (NICs): Employer NICs will increase from 13.8% to 15% starting in April 2025, with a reduction in the secondary threshold from £9,100 to £5,000. The Employment Allowance will rise from £5,000 to £10,500, exempting 865,000 employers from paying NICs next year.
- Inheritance Tax: The inheritance tax threshold will be frozen at £325,000 until 2030. However, from April 2027, inherited pensions will be included within inheritance tax, generating additional revenue.
- Capital Gains Tax: Rates will increase from 10% to 18%, with the higher rate rising from 20% to 24%.

The Chancellor stated that these changes are essential to address spending needs, including funding allocations to meet financial commitments and close a £22 billion gap in public finances. This tax revenue will be part of a broader fiscal approach that includes increased borrowing, raising public sector net borrowing by an average of £32 billion annually over the next five years.

Of announcements of particular interest to London, the Budget included:

- HS2: Commitment to begin tunnelling work toward Euston.
- Devolution: Greater Manchester and the West Midlands will be the first mayoral authorities to receive integrated funding settlements from next year, marking a shift towards increased devolution and local authority funding. There was a commitment to explore "how an integrated settlement could apply to the Greater London Authority from 2026-27".
- Transport for London (TfL) funding: £485 million for TfL's capital renewals programme in 2025-26.
- Enhanced Business Rates Retention: Extension of the GLA's enhanced business rates retention arrangements at 67% for 2025-26.
- Building Safety Remediation: £1 billion in UK-wide funding confirmed for building safety remediation next year, addressing urgent safety improvements.

GLA Economics will examine the Budget in further detail and its impact from a London perspective in next month's supplement to this publication.

European Central Bank cuts interest rates

In the Eurozone the European Central Bank (ECB) cut its key interest rate by a quarter-point to 3.25% (Figure 3) in October, as it responded to a notable easing in the Zone's rate of inflation and growing concerns about sluggish economic growth. This was the second consecutive rate cut following a similar quarter-point reduction in September, underscoring the ECB's shift toward a more accommodative monetary policy.

During a press conference ECB President, Christine Lagarde, emphasized that "the disinflationary process is well on track", pointing to the latest economic data, which showed inflation in the Eurozone falling below the ECB's 2% target for the first time in over three years. The final inflation reading for September came in at 1.7%, a sharp decline from the previous month's 2.2%, further solidifying the case for policy easing. She also highlighted that while the decision to cut rates was unanimous, the ECB remains cautious, and that it is not pre-committed to further cuts, but will remain data-driven. The ECB further noted that although inflation is expected to stabilize near the 2% target by late 2025, the recent downside surprises in economic activity and inflation give them more flexibility in managing monetary policy.

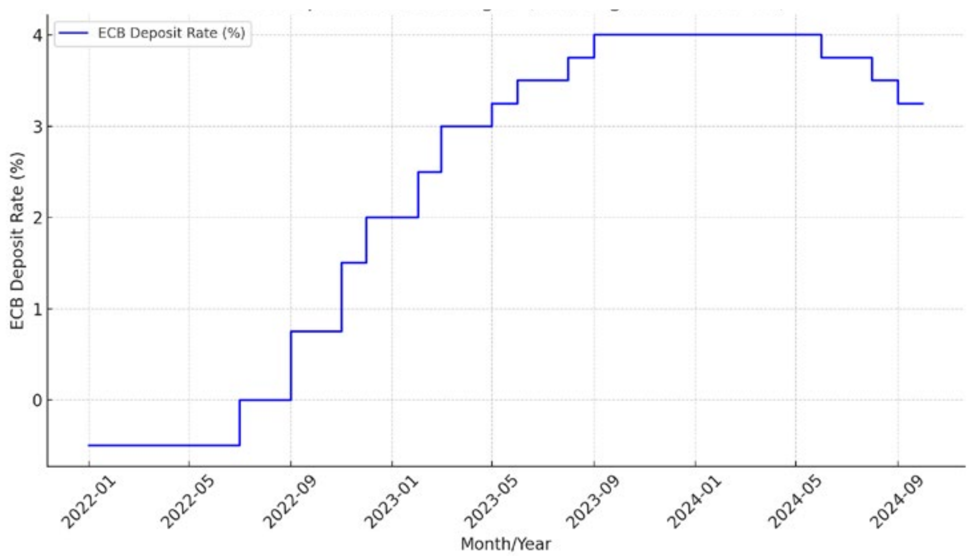


Figure 3: ECB Deposit Facility Rate (%) from January 2022 to October 2024

Source: ECB, Eurostat

The latest ECB rate cut comes amid increasing signs of economic weakness in the Eurozone, with Germany, the region's largest economy, showing significant signs of slowing. Nevertheless, Christine Lagarde rejected the idea that the Eurozone is headed for a recession, describing the outlook as more of a soft landing rather than a hard stop. Also, despite the weaker inflation data, she stressed that inflationary pressures could return later in the year, driven by energy price stabilization and a potential uptick in demand. Looking ahead, the ECB signalled that it would continue closely monitoring economic developments. The next meeting on 12th December is likely to provide further insights into the Bank's outlook for 2025 and beyond.

London has higher over 50s poverty rates than the rest of the country

A report from Age UK London published this month has shown that poverty rates among Londoners aged 50 and above are significantly higher than those in the rest of England. The report showed that 24% of older Londoners live in poverty, compared to 19% nationwide. This disparity suggests that if London matched the national average, around 125,000 fewer older residents would experience poverty. High housing costs and fixed incomes contribute to this trend, with structural issues in London's housing market, including the prevalence of high rents and limited affordable housing, intensifying financial strain for older residents.

Housing tenure was found to be a critical factor in these poverty rates, as older Londoners renting in the social housing sector face the greatest challenges: approximately 46% of them live in poverty. Private renters were found to be similarly affected, with 28% of London's over-50s in poverty, while homeownership offers some financial stability to those who own their properties outright. Rising rent prices, coupled with relatively low pension incomes, force many older Londoners to prioritize housing costs over other essential needs, reducing their quality of life.

The report found that in 2022 fuel poverty further exacerbated the issue, particularly as rising energy costs placed an additional burden on older, fixed-income households. That year, the state pension amounted to £9,627 per year, while annual energy bills ranged from approximately £1,750 for purpose-built flats to £3,300 for detached houses. This means that single pensioners could be spending between 18% and 34% of their income on energy alone, compared to just 9% for an average British household under 50 and actively employed. According to the Department for Energy and Climate Change (DECC), almost 58% of those in fuel poverty are either single individuals or couples over 60, with households of couples over 60 experiencing an average fuel poverty gap of £262. Among Londoners aged 50 to 59, one in five (20%) faces fuel poverty, compared to 15% for this age group in the rest of England. These figures underscore the disproportionate impact of energy costs on London's older residents.

The Age UK London report calls for targeted policy interventions, including campaigns to increase Pension Credit uptake and improvements in social housing energy efficiency. Local authorities and the Mayor are encouraged to support initiatives that help older residents access necessary benefits and enhance outreach to isolated older adults who may not be aware of these services. The report argues that bridging this poverty gap would not only address an urgent financial need but also significantly improve the living conditions of one of London's most vulnerable demographics.

Consultation on the formation of a new "airspace design service"

Elsewhere, the Department for Transport and the Civil Aviation Authority have announced a consultation on the formation of a new "airspace design service" which will redraw how planes fly, in, out and around the UK. This review will start with the airspace in London and south of England. Redrawn routes could free up quicker journey times and reduce pollution from aircraft, but it could also lead to new communities experiencing noise pollution from flights.

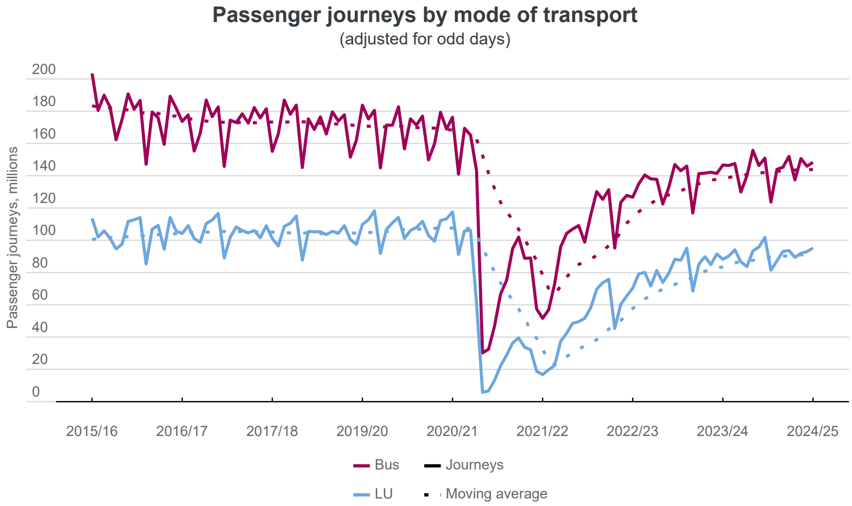
GLA Economics will continue to monitor all these and other aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport marginally increases in July

- 243.5 million passenger journeys were registered between 23 June and 20 July, 4.7 million more than in the previous period. 238.9 million passenger journeys were registered between 26 May and 22 June.
- In the latest period, 95.2 million of all journeys were underground journeys and 148.3 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose marginally from 234.9 million in the previous period to 235.1 million in the latest period.

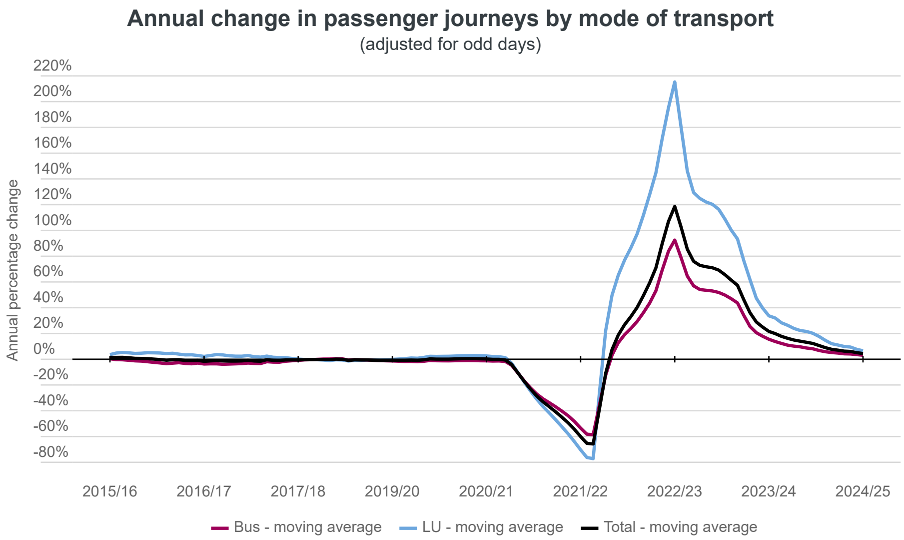
Source: Transport for London
Latest release: August 2024, Next release: November 2024



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 4.4% between 23 June and 20 July, down from 5.1% between 26 May and 22 June.
- The moving average annual growth rate of bus journeys decreased from 3.6% to 3.1% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 7.7% to 6.6% between those periods.

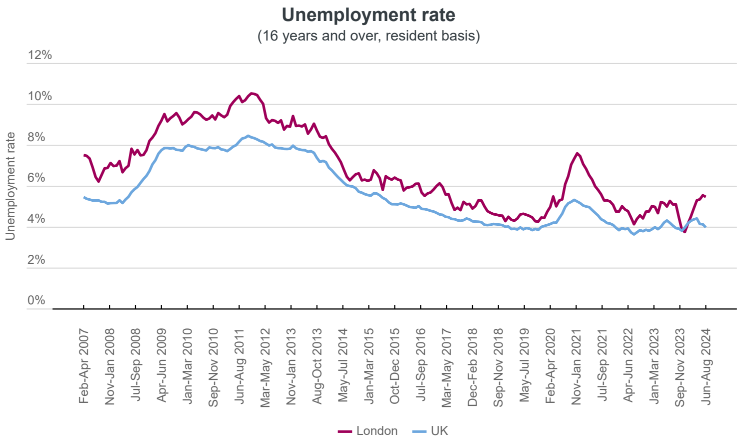
Source: Transport for London
Latest release: August 2024, Next release: November 2024



London's unemployment rate increased over the last quarter

- Around 280,000 residents aged 16 and over were unemployed in London in the period from June to August.
- The unemployment rate in London for that period was 5.5%, an increase from 5.3% in the previous quarter March - May.
- The UK's unemployment decreased to 4.0% in June - August, down from 4.4% in March - May.
- 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.

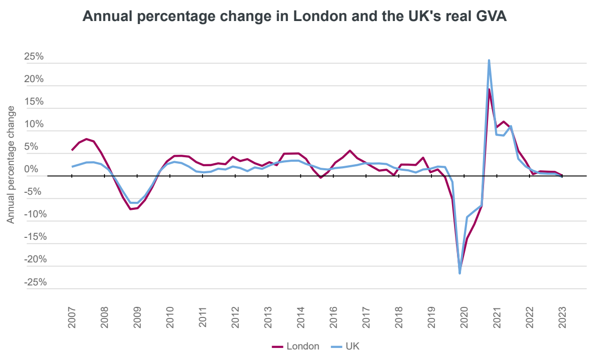
Source: ONS Labour Force Survey
Latest release: October 2024, Next release: November 2024



London's economy had surpassed pre-pandemic levels of output by Q4 2022, with recent growth trends moderated

- By Q4 2023, London's real Gross Value Added (GVA) was 0.6% above its pre-pandemic level (Q4 2019), while the UK's real GVA was 1.4% higher.
- London's real GVA decreased by 0.3% in Q4 2023 compared to Q3 2023, following no change in the previous quarter. Similarly, the UK's real GVA also decreased by 0.3% in Q4 2023 compared to Q3 2023, after a 0.1% decline in the previous quarter.
- 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 based on outturn data from the ONS, which has not published up-to-date quarterly estimates for London's real GVA for the other periods.
- The Office for National Statistics (ONS) recently published figures on London's output for 2022 and revised annual figures for earlier years. GLA Economics has re-estimated ONS quarterly London data on a comparable basis according to the recent ONS revisions to London annual figures and produced its own estimates for growth for the period Q4 2022 to Q4 2023. The net effect of the ONS downward revision is a reduction in estimates of London's output compared to what GLA Economics was previously reporting.

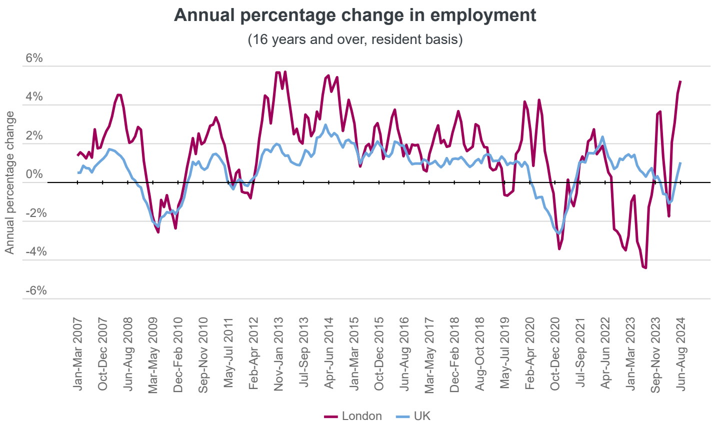
Source: ONS and GLA Economics calculations
Latest release: July 2024, Next release: December 2024



London’s year-on-year employment growth rate rose in the quarter to August

- Around 4.8 million London residents aged 16 and over were in employment during the three-month period from June to August.
- London’s annual change in employment increased by 5.2% in the year to this quarter, compared to a 2.1% increase during the period from March to May.
- The UK experienced a 1.0% increase in employment in the latest quarter, this compares to a 0.9% decrease 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.

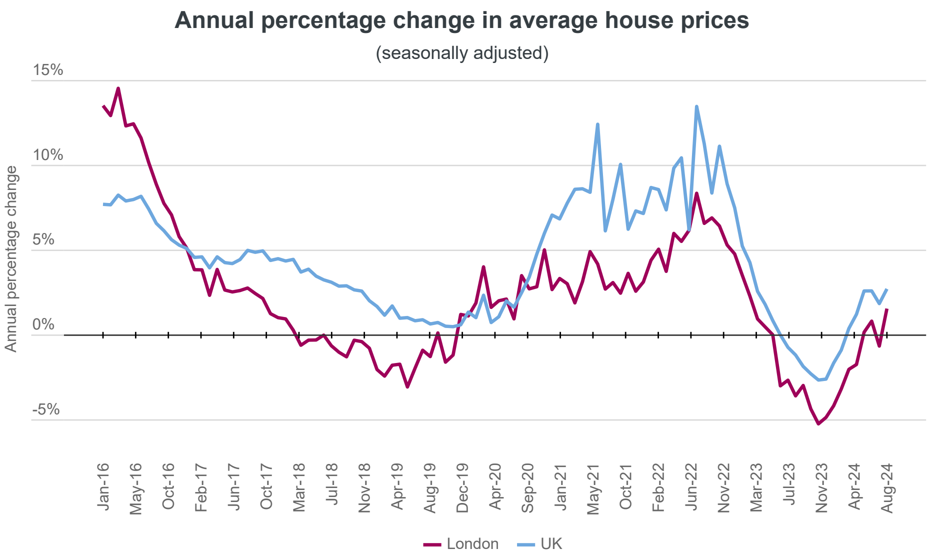
Source: ONS Labour Force Survey
Latest release: October 2024, Next release: November 2024



On an annual basis house prices increased in London in August

- In August, the average house price in London was £522,000 while in the UK it was £286,000.
- Average house prices in London rose by 1.6% year-on-year in August, compared to a decrease of 0.6% in July.
- Average house prices in the UK rose by 2.7% on an annual basis in August, higher than the increase of 1.9% in the year to July.

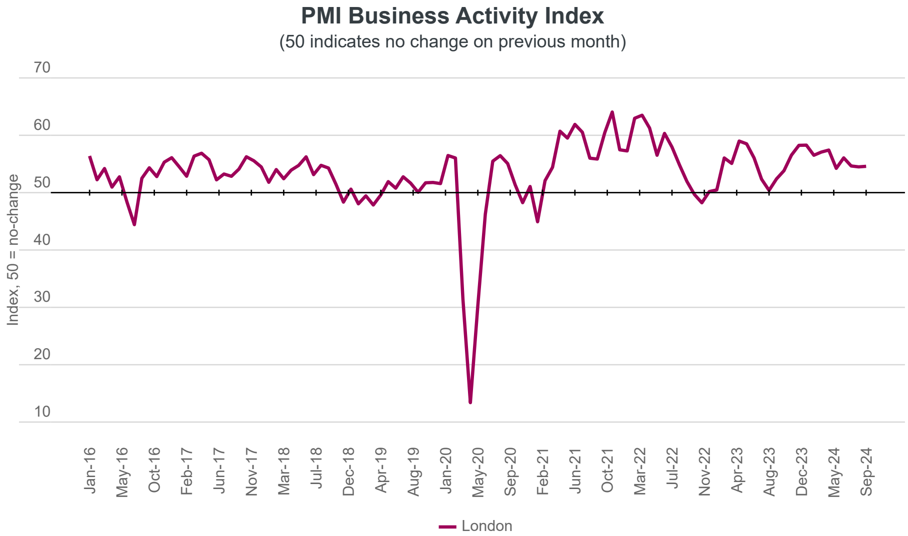
Source: Land Registry and ONS
Latest release: October 2024, Next release: November 2024



In September, the sentiment of London's PMI business activity index increased marginally

- The business activity PMI index for London private firms increased marginally from 54.5 in August to 54.6 in September.
- 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.

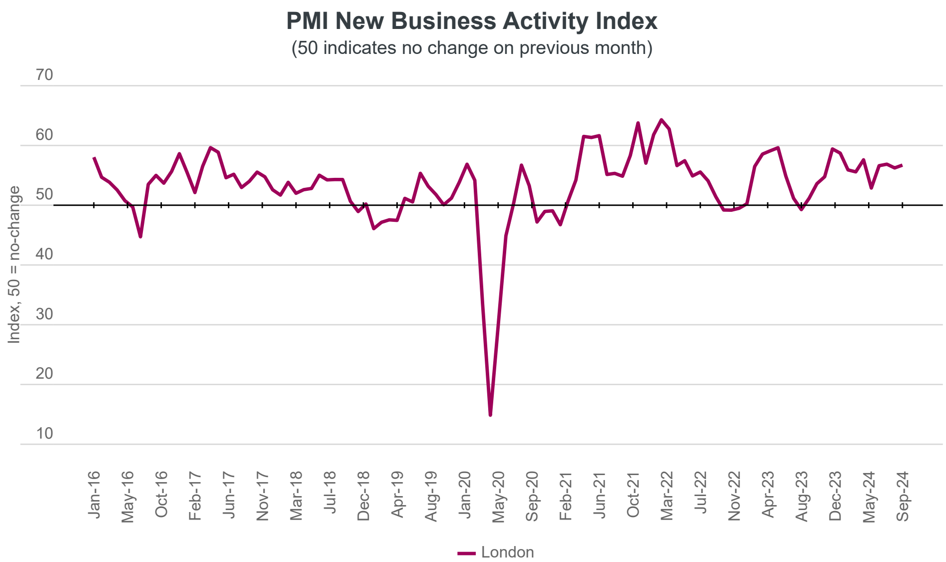
Source: IHS Markit for NatWest
Latest release: October 2024, Next release: November 2024



In September, the sentiment of London's PMI new business activity increased slightly

- The PMI new business index in London increased slightly from 56.2 in August to 56.7 in September.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

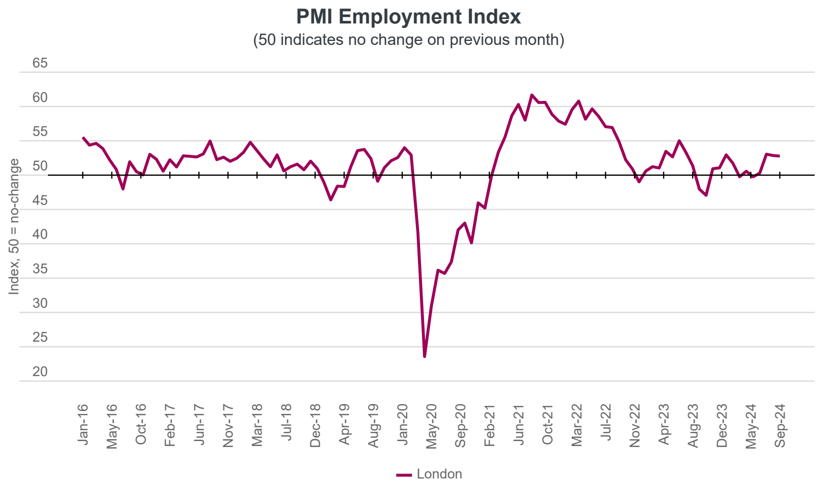
Source: IHS Markit for NatWest
Latest release: October 2024, Next release: November 2024



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

- The Employment Index for London decreased from 52.9 in August to 52.8 in September.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. A reading above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

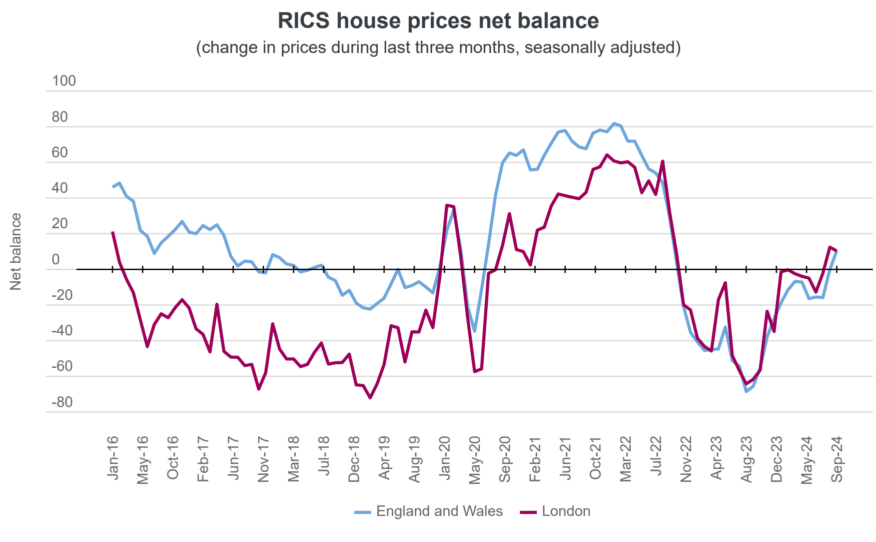
Source: IHS Markit for NatWest
Latest release: October 2024, Next release: November 2024



Over half of property surveyors in London reported house price increases in September

- In September, more property surveyors in London reported rising prices than falling prices. The net balance index was 10 and it was 12 in August.
- For England and Wales, the RICS house prices net balance index improved significantly from 0 in August to 11 in September.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

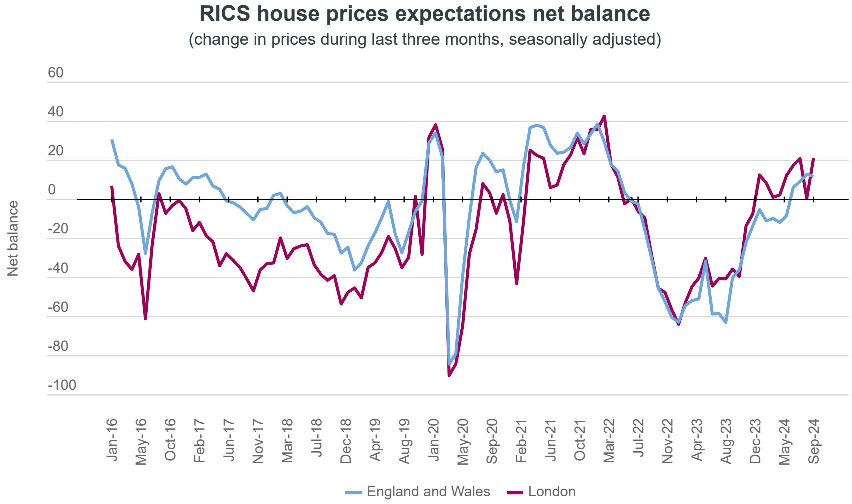
Source: Royal Institution of Chartered Surveyors
Latest release: October 2024, Next release: November 2024



In September, 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 was 21 in September, improving significantly from 1 in August.
- The index for England and Wales was 12 in September and was 13 in August.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

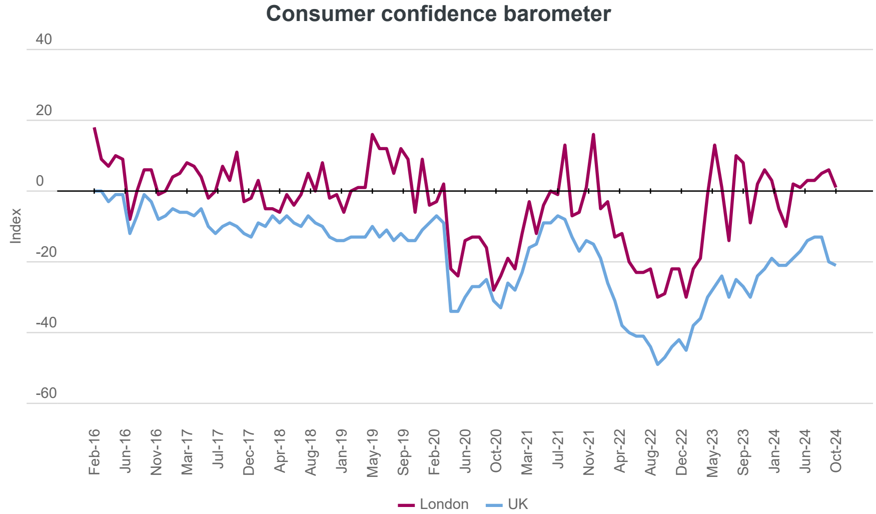
Source: Royal Institution of Chartered Surveyors
Latest release: October 2024, Next release: November 2024



Consumer confidence in London remained positive but decreased in October

- The consumer confidence index in London decreased from 6 in September to 1 in October.
- The sentiment for the UK decreased marginally from -20 to -21 over the two months. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: October 2024, Next release: November 2024



In-work poverty in London - an overview of trends and drivers, 1997-2023

By **Guillaume Paugam**, Economist

1 Introduction

In London, the latest poverty rate stood at 25%, representing 2.2m people across the capital.[1] This is higher than the UK-wide rate (22%), at a time where many London labour market indicators are at, or near, an all-time high.[2]

The contrast between the apparent health of the London labour market and the prevalence of poverty suggests that to better understand poverty in London and tackle it, we need to understand how it relates to labour market participation.

In this note, we introduce a few key results of a wider research project and forthcoming publication by GLA Economics on in-work poverty trends in London between 1997 and 2023.

It focuses on the current standard definition of relative poverty, with people in poverty defined as those whose household net equivalised (adjusted for household size) income is below 60% of the median income[3] after housing costs[4].

The in-work poverty rate is therefore defined in this note as the **share of working-age people in employment living in a household in poverty**.

Unless otherwise stated, the focus is on London's working age population (16-64). The data used is from the Department of Work and Pensions' Household Below Average Income (HBAI) dataset.[5]

1 UK Poverty 2024, Joseph Rowntree Foundation.
2 London Labour Market Update – October 2024, GLA Economics.
3 The median income is the income level such that 50% of people earn below that level, and 50% earn more. The median household disposable income in the UK in 2023 was £34,500 (ONS).
4 UK Poverty 2024, Joseph Rowntree Foundation.
5 Available at: https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml

2 Mapping in-work poverty in London

The overall working-age poverty rate in London has fluctuated between 22% and 28% since 1997 (Figure 2.1).

However, there has been a big shift in the composition of the rate. In 1997, it could be broken-down between 15% of working-age Londoners in poverty and in a workless family, and 9% in poverty and in a family with at least one person employed (Figure 2.1). In 2023, those figures were reversed: **14% of working-age Londoners were in poverty and in a family with at least one person employed**, and 8% were in poverty and in a workless family.

Poverty in London has shifted from being a phenomenon primarily associated to family worklessness, to **primarily affecting adults living in families where there is employment**.

Figure 2.1 Poverty rate in London
% of 16-64 resident population

Source: GLA Economics analysis of DWP's Households Below Average Income (HBAI). Three-years rolling averages.

The latest data shows that the in-work poverty rate stood at **15%,** representing **660,000** workers in poverty in the capital (Figure 2.2a).

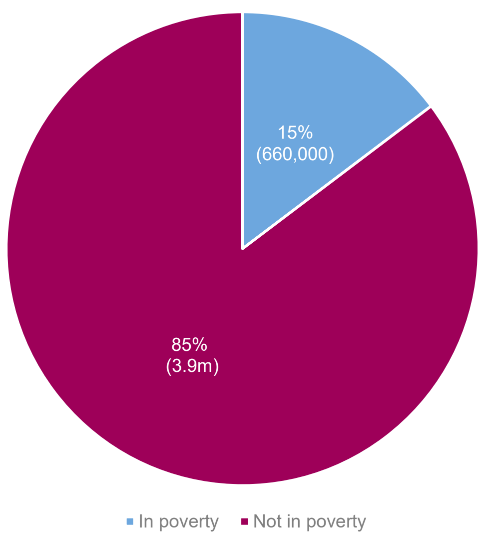


Figure 2.2a In-work poverty in London
share of 16-64 employed residents

Source: GLA Economics analysis of DWP's Households Below Average Income (HBAI). Three-years rolling averages.

This is up from 11% in 1997 but fell in the second half of the 2010s, after a peak in the middle of the last decade (Figure 2.2b).

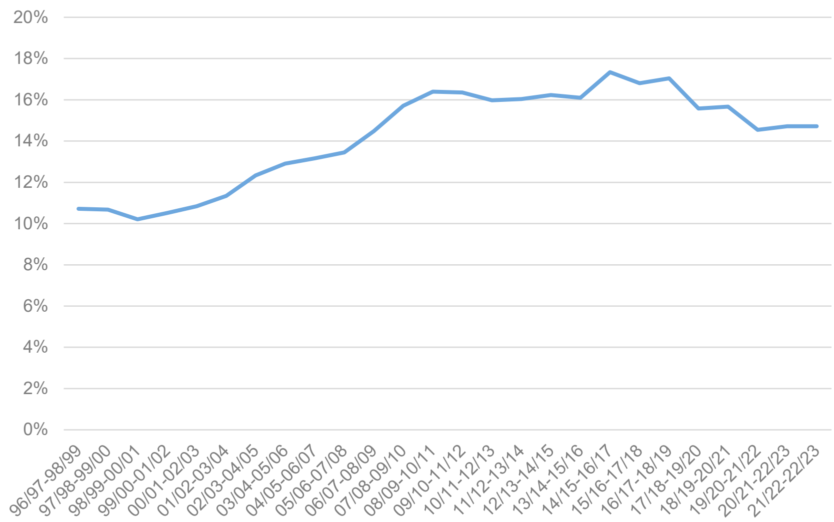


Figure 2.2b In-work poverty in London
share of 16-64 employed residents in poverty

Source: GLA Economics analysis of DWP's Households Below Average Income (HBAI). Three-years rolling averages.

In-work poverty rates are much higher for workers whose job is not a full-time employee job: **part-time employees and the self-employed**. The rise of in-work poverty since 1997 happened alongside both a rise in these forms of work (Figure 2.3a), and an increase in the poverty rates associated with them (Figure 2.4).

The biggest group of workers, by far, in London, is full-time employees (Figure 2.3b). But the rise in the number of workers residing in London since 1997 has been evenly divided between full-time employee jobs, and the more insecure forms of work (Figure 2.3a).

The poverty rate among full-time employees has been around 10% over the last decade in London. This is about **one third of the poverty rate for part-time employees**, which was 29% in 2023, up from 21% in 1997 (Figure 2.4). The poverty rate for **self-employed workers was 24%** in 2023 - there has been a small upward trend over time, but there is some volatility in the numbers.

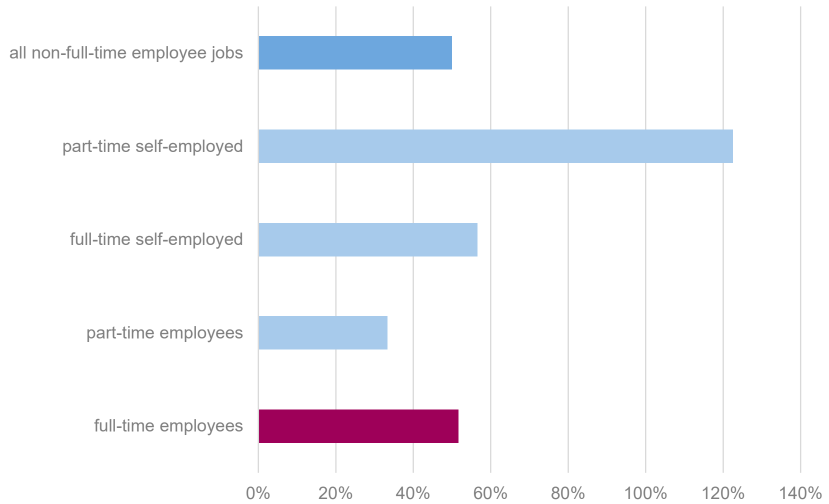


Figure 2.3a Employment type in London
percentage change 1997-2023 in number of 16-64 workers

Source: GLA Economics analysis of DWP's Households Below Average Income (HBAI). Three-years rolling averages.

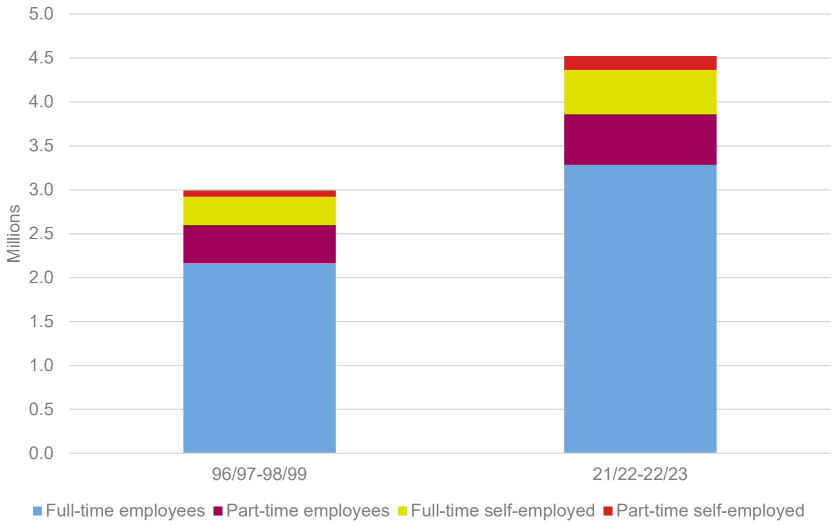


Figure 2.3b Employment type in London
Number of 16-64 Londoners, by type of work

Source: GLA Economics analysis of DWP's Households Below Average Income (HBAI). Three-years rolling averages.

Figure 2.4 Poverty and type of work
% of 16-64 employed population in poverty, by work type

Source: GLA Economics analysis of DWP's Households Below Average Income (HBAI). Three-years rolling averages.

Academic studies show that mechanisms making these forms of work more prone to poverty include shorter hours (in the case of part-time work) or instability in earnings (for self-employed work).[6] They might also suffer from lower hourly earnings, especially if more prevalent in lower-paid occupations.[7],[8]

What our forthcoming full note will also show is that the **household context** in which these forms of work are found also matters.[9] Our preliminary results show a rise in the number of **households who rely in part or in full on precarious forms of work** as sources of labour income. Increasingly, unequal access to the labour market across households is not about workless versus working households, but about the type of work found in households.

The full note will also explore inequality in in-work poverty risks, with preliminary results indicating that **ethnic minorities, workers without qualifications, single parents, and families with three children or more, are particularly vulnerable**.

6 Horemans, J. (2018). Atypical employment and in-work poverty. Handbook on In-Work Poverty
7 Manning, A. and B. Petrongolo. (2008). The Part-Time Pay Penalty for Women in Britain. The Review of Economics and Statistics.
8 Horemans, J. and I. Marx. (2024). Poverty, inequality and material deprivation among the self-employed in Europe. Research Handbook on Self-Employment and Public Policy.
9 Salverda, W. (2018). Low earnings and their drivers in relation to in-work poverty. Handbook on In-Work Poverty.

3 Summary

Poverty in London increasingly affects working-age Londoners living in families with employment, rather than in workless families, a drastic change compared to 25 years ago.

While 15% of London workers are in poverty, the in-work poverty risks vary greatly depending on the type of work, with self-employed and part-time employee jobs much more at risk. The relevant issue increasingly becomes the type of work that we find in London households, rather than whether the household is fully workless or has someone in work.

This note is a short showcase of a longer forthcoming research piece by GLA Economics, exploring in more depth trends and drivers of in-work poverty in London, as well as inequality in in-work poverty risks across Londoners.

It is also worth noting that the relative measure of poverty used here essentially tracks how incomes at the bottom of the distribution compare to the median. Many other measures exist, including some that will be more appropriate to identify absolute destitution, material deprivation, or the depth of poverty.

Our latest publications

We publish regularly on the state of London's economy, providing the latest economic data for London and interpret how this may affect policy. This includes analysis of recent developments in London's economy and forecasts for the next couple of years.

We provide analysis on sectors of the economy including tourism, retail, housing, health, science, technology and more.

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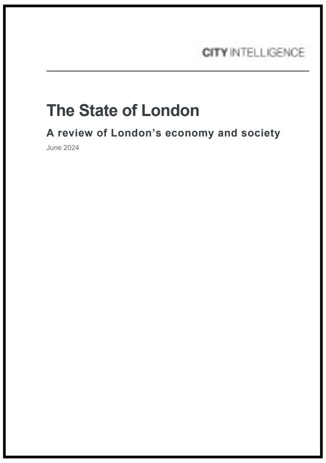

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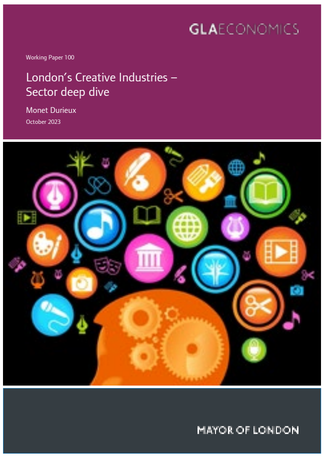

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About GLA Economics
GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor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

MAYOR OF LONDON