GLAECONOMICS

Forecast report

London's Economic Outlook: Autumn 2024
The GLA's medium-term planning projections

December 2024

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1 Executive summary

GLA Economics' 45th London forecast[1] suggests that:

- London's real Gross Value Added (GVA) growth rate is forecast to be 1.2% in 2024, as the ongoing fallout from high interest rates and the cost-of-living crisis constrains economic activity. Growth is expected to pick up in 2025 to 1.9%, with a further acceleration to 2.2% in 2026.
- The number of workforce jobs in London is forecast to rise by 1.3% in 2024, with further moderate increases in 2025 and 2026, reaching 1.5% and 1.6% respectively.
- Household spending is forecast to grow by 0.9% in 2024, followed by a more robust 2.0% in 2025, and 2.1% in 2026.
- Household income is expected to grow by 2.7% in 2024, with growth of 3.1% in 2025 and then easing to 2.0% in 2026.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household expenditure, and household income. High levels of uncertainty persist due to the lingering impact of the cost-of-living crisis and the war in Ukraine. As a result, the forecasts presented in this document should be interpreted as a baseline scenario for London's economy in the medium term. This is the most likely scenario in GLA Economics' judgment, but there are many plausible alternatives.

Table 1.1: Summary of economic forecasts under GLA Economics reference scenario

Annual growth rates (per cent)	2023[2]	2024	2025	2026
London GVA (constant 2019, £ billion)	0.5%	1.2%	1.9%	2.2%
Consensus (average of independent forecasts)		1.1%	1.9%	2.0%
London workforce jobs	4.0%	1.3%	1.5%	1.6%
Consensus (average of independent forecasts)		0.8%	1.0%	1.2%
London household expenditure (constant 2019, £ billion)	0.8%	0.9%	2.0%	2.1%
London household income (constant 2019, £ billion)	4.0%	2.7%	3.1%	2.0%
Memo: Projected UK RPI[3] (Inflation rate)	9.7%	3.7%	3.3%	3.1%
Projected UK CPI[4] (Inflation rate)	7.3%	2.5%	2.3%	2.1%

Source: GLA Economics' Autumn 2024 forecast

Since the Summer 2024 LEO[5], the economic news has centred on generally subdued economic growth while inflation moderates. The war in Ukraine and the disruption to energy and grain supplies it created continues to act as a damper on the global economy. In addition, the Israel-Hamas war, the conflict in Syria, and the results of the 2024 USA elections, have further influenced global stability and sentiment, creating additional challenges. The UK, which has felt the economic effects of these events, has also been grappling with a cost-of-living crisis, as high inflation and lagging wage growth made households poorer. Despite inflation

[1] The forecast is based on judgements and a recently updated econometric model built by GLA Economics. For more details see 'The new GLA Economics forecast models for London's economy, GLAE Working Paper n°98, June 2020'.
[2] Historic data for London's workforce jobs is based on ONS actual data, real GVA is based on actual ONS data and GLA economics estimates, while household spending and household income are based on GLA Economics estimates.
[3] RPI = Retail Price Index. Although not part of the GLA Economics forecast for London. Instead, the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2024), 'Forecasts for the UK economy: a comparison of independent forecasts', November 2024. Data for 2022 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics.
[4] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London. Instead, the consensus forecasts provided by HM Treasury are reported here. See: HM Treasury (2024), 'Forecasts for the UK economy: a comparison of independent forecasts', November 2024. Data for 2022 is from the ONS and GLAE estimates, Inflation and price indices - Office for National Statistics. Since December 2003, the Bank of England's symmetrical inflation target is annual CPI inflation at 2%.
[5] GLA Economics (2024), 'London's Economic Outlook: Summer 2024', July 2024

easing, this issue persists. However, the UK economy has shown some resilience to these shocks, although near-term forecasts remain weak.

A severe UK recession appears unlikely, but the outlook is weak following the mild recession seen at the end of 2023. Projections from the Bank of England and the Office for Budget Responsibility (OBR) point to weak growth this year (2024), with a slight recovery expected in 2025 due to increased government spending plans in the short term. However, the medium-term outlook remains challenging due to the UK's low investment compared to other major economies, a lingering increase in economic inactivity after the pandemic, and slow trade growth after Brexit. Despite this, the UK government's recent budget focuses on significant investments in infrastructure, green energy, and public services, which could boost growth in the near future, although new tax measures are scheduled for implementation next year which could act as a drag on the economy. London remains the UK's region with the highest productivity and is a hub for foreign investment and trade, but it is unlikely to escape these long-term challenges entirely, although service exports have recovered well.

UK economic data demonstrates the generally weak state of the economy. After falling by 10.4% in 2020 due to the pandemic, the Office for National Statistics (ONS) data shows that UK GDP grew by 8.7% in 2021 and 4.3% in 2022. However, in 2023, growth stalled with output only increasing by 0.1%. Since Q2 2022, GDP has generally stagnated, although quarterly growth in Q1 2024 did pick up to 0. 7% after two quarterly declines, signalling some recovery following the mild recession at the end of 2023. This reflects some positive momentum, which continued into Q2 2024 with growth of 0.5% recorded before slowing to 0.1% in Q3 2024[6]. Looking forward, growth could be supported by government spending initiatives aimed at boosting economic activity. However, the impact of the cost-of-living crisis continues to be felt, and inflation, while moderating, remains a significant challenge for households and the economy as a whole due to the impact of previous price rises.

Other data shows a continued subdued UK economy, with the unemployment rate rising to 4.3% in the three months to September 2024, marking an increase from the previous year. UK employment also remains sluggish, with the employment rate at 74.8% for those aged 16 to 64 years, relatively unchanged from the previous year but slightly higher than the previous quarter. The economic inactivity rate for this age group stands at 21.8%, showing a decline compared to the same period last year. Despite the overall slow growth, the labour market remains volatile; caution is recommended when interpreting the data due to variations in sampling methods and the sample size changes introduced earlier in 2024.

A reason to be cautious about the prospects for the economy remains inflation. Although CPI inflation eased to the Bank of England's target rate of 2.0% year on year in May, and has hovered around that rate since, the Bank expects a slight uptick in inflation in the coming months. Moreover, despite moderating inflation, the poorest households continue to be hardest hit by the recent surge in the costs of essential goods. As a result, limited economic growth may provide little relief for those on low incomes.

In response to inflation, macroeconomic policy has reacted dramatically. The Bank of England implemented its sharpest rate-hiking cycle since the 1980s in response to the inflationary spike in 2021 and 2022. These higher interest rates, although being eased, will continue to act as a drag on the economy over time, especially as any future rate cuts may be more moderate than initially expected. Despite cuts in National Insurance, the previous Government allowed the tax take to rise, and it is expected to hit levels as a percentage of GDP not seen since the 1940s. With government debt remaining above 90% of GDP, the new

[6] ONS (2024), 'GDP first quarterly estimate, UK: July to September 2024', November 2024

Government faces significant challenges surrounding the UK's finances. It will need to navigate fiscal constraints while balancing the pressures of inflation, growth, and public debt management.

International forecasts remain subdued, though the IMF has upgraded the UK's 2024 growth to 1.1%[7]. While this reflects a positive development, risks persist, particularly with rising public debt and global uncertainties, warranting caution in the economic outlook.

Despite ongoing risks, there are reasons for optimism about London's economy. Although the capital's economic hit from the pandemic was more severe than the UK's overall, its recovery has been strong, though it has slowed recently in line with the broader UK economy. London's growth is expected to continue outperforming the UK in the coming years.

Survey data also point to greater resilience in London. Businesses in the capital have largely shrugged off the disruptions from higher inflation in 2022 and 2023, with the headline PMI rising to 56.5 in November 2024, signalling a sharper expansion in business activity compared to earlier in the year. While the PMI index has been subdued relative to post-pandemic levels, it has generally strengthened since the end of 2023. However, PMI employment data has remained weak, with negative March and May 2024 readings. Meanwhile, consumer confidence in the capital has improved, with the GfK index rising from 1 in October to 9 in November 2024, reflecting more optimistic views on personal finances and the general economy compared to the consistently negative readings seen at the national level. Despite this, retail spending in November declined, indicating caution in consumer behaviour.

Given this background, the GLA Economics reference scenario for London sees the capital's output being subdued this year (2024), with growth of 1.2%. Growth is expected to recover slightly in 2025 before picking up more in 2026, but it remains below historic averages. Employment growth is expected to be relatively strong over the forecast period (see Figures 1.1 & 1.2 and Chapter 5 for more detail). The lingering effects of the cost-of-living crisis are likely to drag on consumer-facing sectors in the near term. Relatively high interest rates will impact manufacturing and real estate and pose challenges to the financial sector. However, other core services are expected to remain resilient due to a robust global outlook and London's continued agglomeration benefits. Neither jobs nor output are projected to fall into a recession and thus return to their pre-pandemic levels (Figure 1.3).

The economic outlook for both London and the UK remains uncertain. Although inflation has fallen, the timeline for stabilisation around target levels is unclear, with the Bank of England expecting some pick-up in the coming months before it falls back again. The slower this stabilisation, the harsher and longer-lasting the reaction from monetary policy, and the greater the risk of financial dislocations. Any global downturn could affect London more severely than the rest of the UK due to its higher trade exposure to the global economy. The housing market also represents a risk, with London house prices experiencing a decline, posing a potential shock to owner-occupiers' household wealth. However, while house prices have stabilised, rents in London have risen significantly, with private rents increasing by 10.4% over the past year. This surge is due to high demand and limited supply, placing pressure on renters' budgets as housing affordability becomes a growing challenge.

In the longer term, the impact of Brexit continues to pose a risk. The UK-EU trade agreement does not cover services, and non-tariff barriers (NTBs) have made imports more expensive. The end of freedom of movement has also cut EU migration, leaving many issues unresolved, despite some improvements, such as the Windsor Framework.

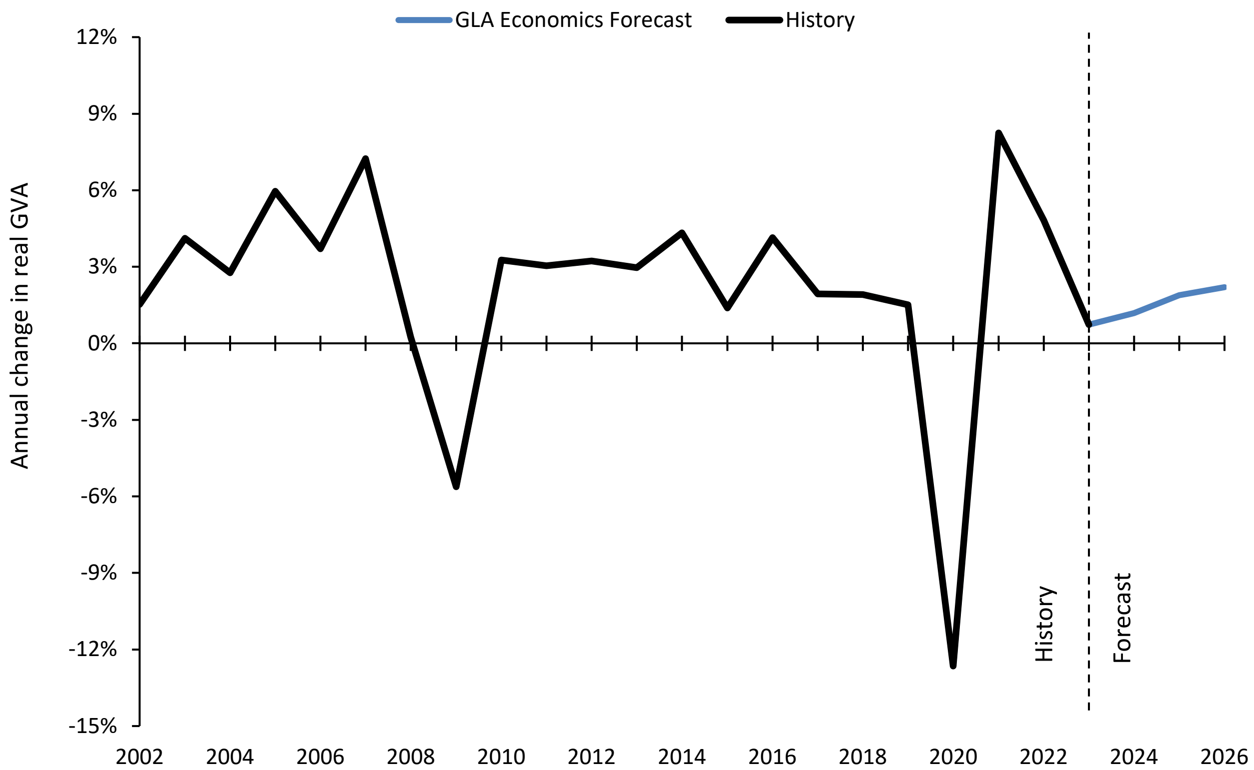
[7] IMF (2024), 'World Economic Outlook: Policy Pivot, Rising Threats', October 2024

Medium-term risks include rising public debt due to the government's significant investments in infrastructure and green energy, alongside announced tax rises, which could further strain economic activity. These investments are intended to boost long-term growth. Box 2 covers the UK's fiscal priorities, focusing on sustainable investments, but also highlights potential debt risks. Beyond this, productivity growth remains a concern, and London's position as a global hub could be at risk if stagnation continues. Global risks such as US-China decoupling, slowing globalisation, and rising protectionism threaten growth, while the transition to green technologies presents both opportunities and challenges. Geopolitical tensions, including the war in Ukraine and conflicts in the Middle East, continue to destabilise markets, and the long-term impact of Artificial Intelligence on the economy remains uncertain.

In response to this elevated uncertainty, GLA Economics has developed macroeconomic scenarios around the baseline, which are regularly updated to reflect changing conditions. These are outlined in Chapter 5.

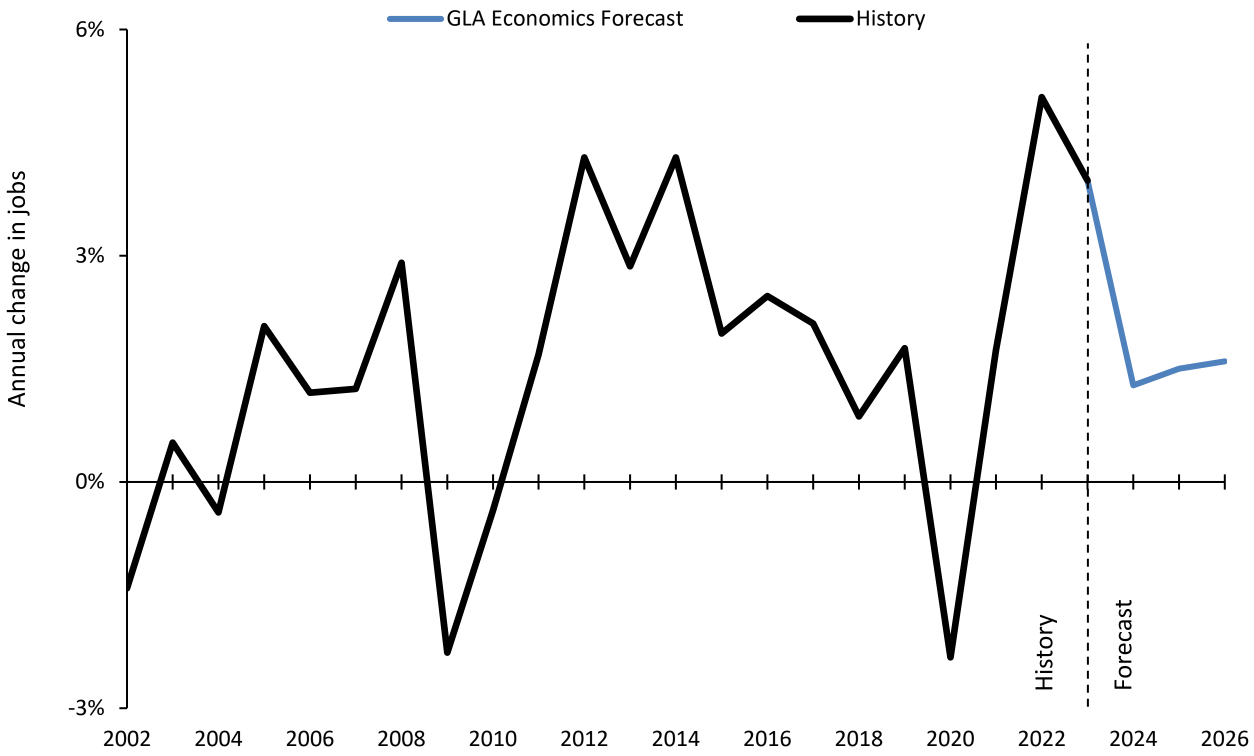
In conclusion, the macroeconomic environment remains challenging, and the near-term outlook is weak. Despite inflation continuing to drop, as shown in the evolution of our London forecast (Figures 1.4 & 1.5), the economy is not expected to return to pre-pandemic trends in the near term. Employment growth has been strong, and while a moderation is expected, employment is unlikely to reverse significantly. The outlook remains clouded by the impacts of the cost-of-living crisis, geopolitical tensions, high interest rates, Brexit, and other pressures, compounded by the evolving fallout from the pandemic. As London's economy restructures, it remains unclear what the 'new normal' will look like.

Figure 1.1: Historic and forecast output growth (GLA Economics reference scenario)



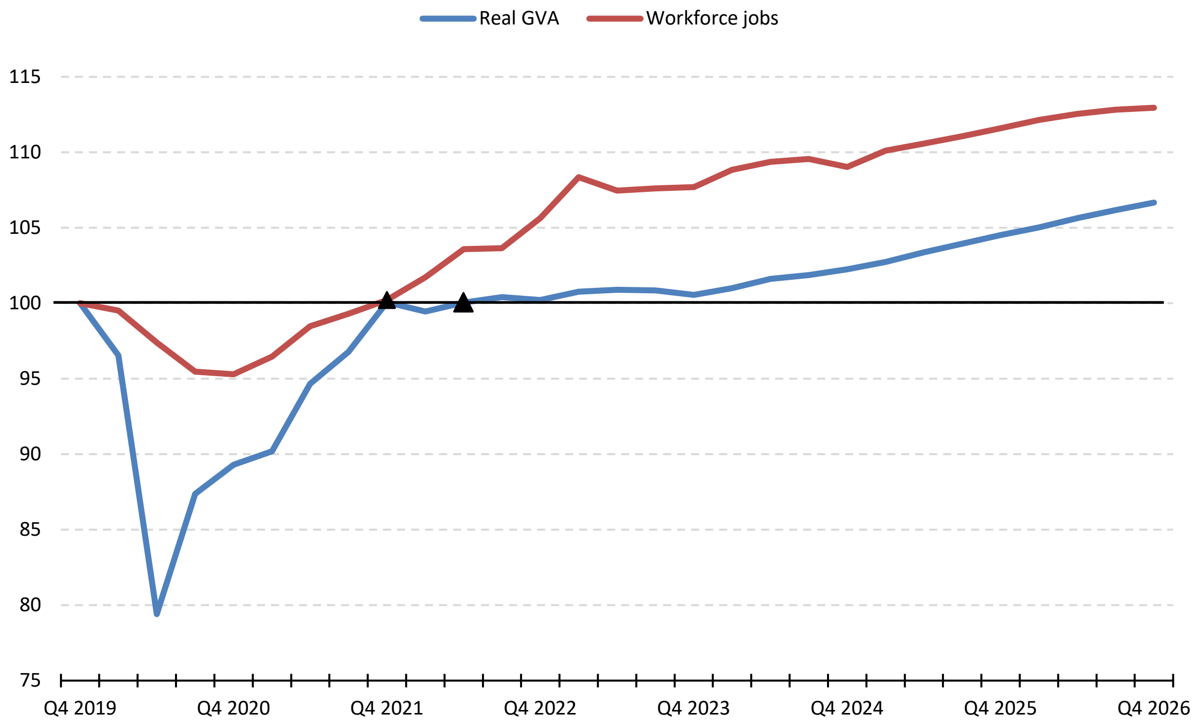
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.2: Historic and forecast employment growth (GLA Economics reference scenario)



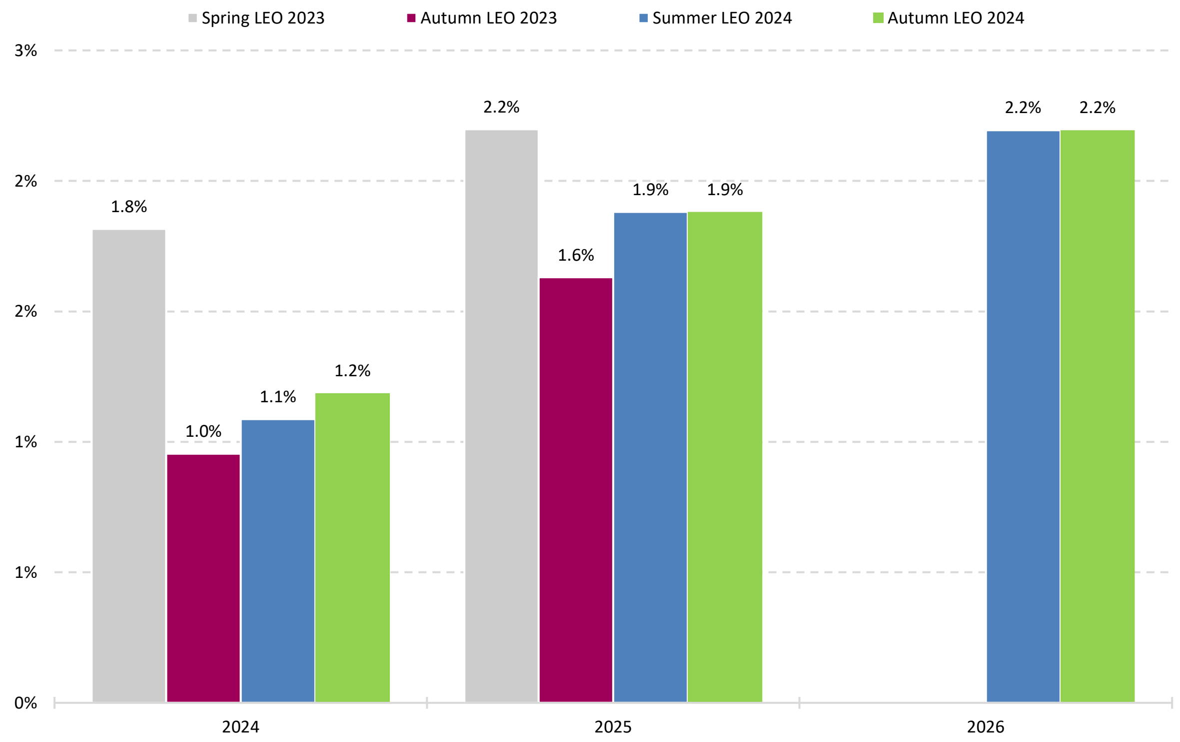
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 1.3: Expected shape of economic recovery under the GLA Economics reference scenario (index)



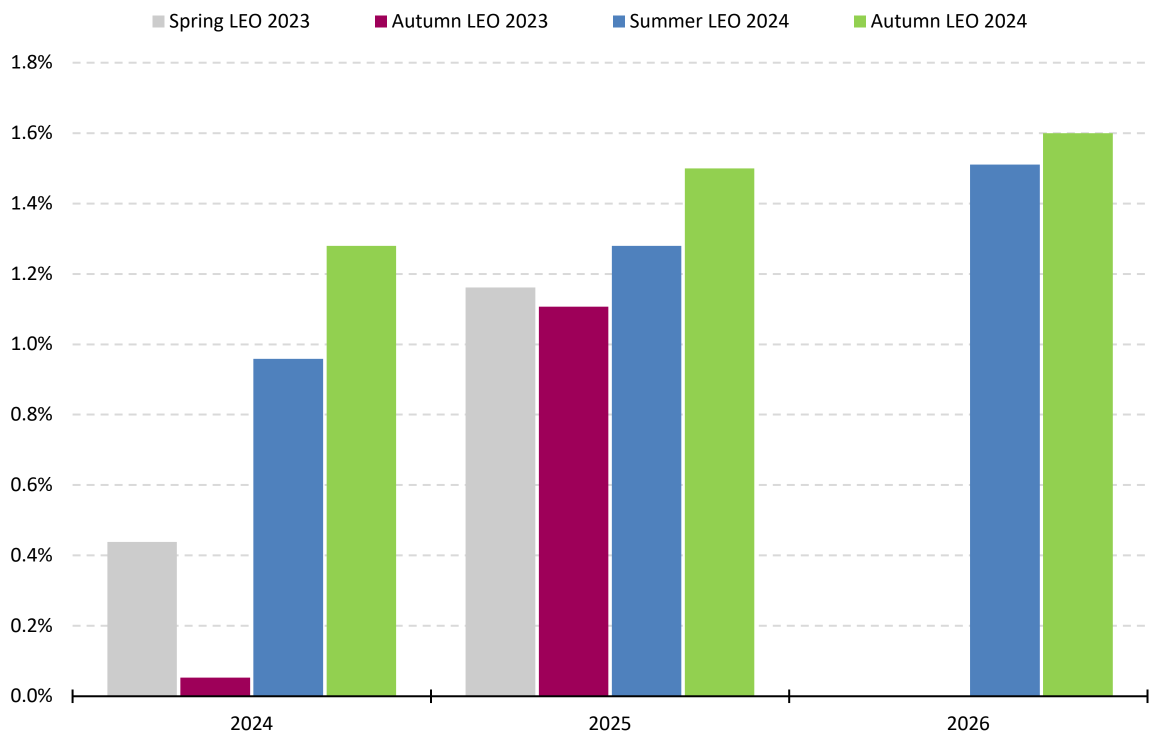
Source: GLA Economics; Note: Triangles mark the point at which pre-pandemic levels reached

Figure 1.4: Development of reference scenarios for London: annual real GVA growth rates 2024-2026



Source: GLA Economics

Figure 1.5: Development of reference scenarios for London: annual jobs growth rates 2024-2026



Source: GLA Economics

2 Introduction

The autumn 2024 edition of London's Economic Outlook (LEO) is GLA Economics' 45th London forecast. The forecasts are issued roughly every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economy and includes analysis of important events, trends and risks to short and medium-term growth (Chapter 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Chapter 4). In this document, 'consensus forecast' refers to the average of the independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Chapter 5).

2.1 Note on the forecast

Any economic forecast represents the forecaster's view of the most likely future path for the economy and is inherently uncertain as a result. Both modelling and data uncertainty, and unpredictable events contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast has been based on a blend between an in-house model built by GLA Economics[8] and a set of judgements. Before 2016, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- The Centre for Economic and Business Research (CEBR)
- Experian Economics (EE)
- Oxford Economics (OE)
- S&P Global Market Intelligence (SP)[9]

Economic forecasting is not a precise science. Furthermore, the GLA designs these projections as a scenario consistent with the Bank of England's forecast published in November[10] and the OBR forecast published in October[11]. Our forecasts provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen. As a result, there are significant risks, mainly on the downside, associated with this scenario.

[8] The forecast model used in this forecast has updated the model described in this publication: Douglass, G & van Lohuizen, A (2016). 'The historic performance of the GLA's medium-term economic forecast model', GLA Economics Current Issues Note 49, November 2016. A description of this new forecast model can be found in Orellana, E. (2020) 'The new GLA Economics forecast models for London's economy', GLA Economics Working Paper 98.
[9] S&P do not provide a forecast for household expenditure in London.
[10] Bank of England (2024), 'Monetary Policy Report', 7 November 2024.
[11] OBR (2024). 'Economic and fiscal outlook – October 2024', 30 October 2024.

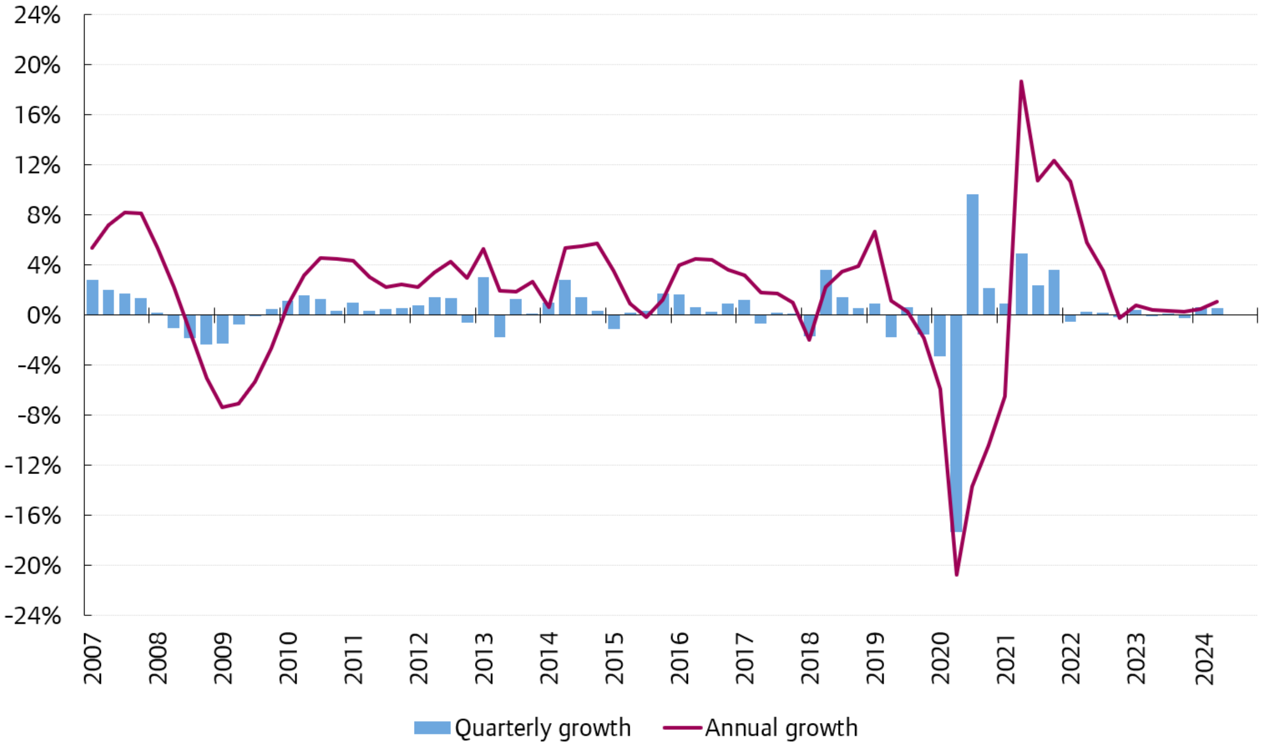
3 Economic background: UK faces moderate growth, while London shows greater optimism and renewed momentum

This Chapter provides an overview of recent developments in the London, UK and global economies, as well as risks to the London economy.

3.1 London's economy

The ONS postponed its quarterly regional publication of output figures. In response, GLA Economics revised historical quarterly statistics based on the updated ONS annual regional data up to 2022 and developed a Nowcast to estimate London's economic output from Q1 2023 to Q2 2024. London's real gross value added (GVA) is estimated to have grown by 0.5% in 2023, with further growth of 0.6% projected for both Q1 and Q2 of 2024. As illustrated in Figure 3.1, London's economy experienced a robust recovery following the pandemic, starting in Spring 2021 and continuing through late 2022. Growth moderated in 2023, but from 2024, London's economic momentum appears to be rebounding.

Figure 3.1: Real GVA in London (Q1 2007 – Q2 2024)



Source: GLA Economics based on ONS - UK regional GVA and GDP data
Note: GLA Economics has estimated London quarterly figures for 1998 Q1 to 2022 Q4 in line with revisions by ONS to annual regional figures, and Nowcast figures to 2024 Q2.

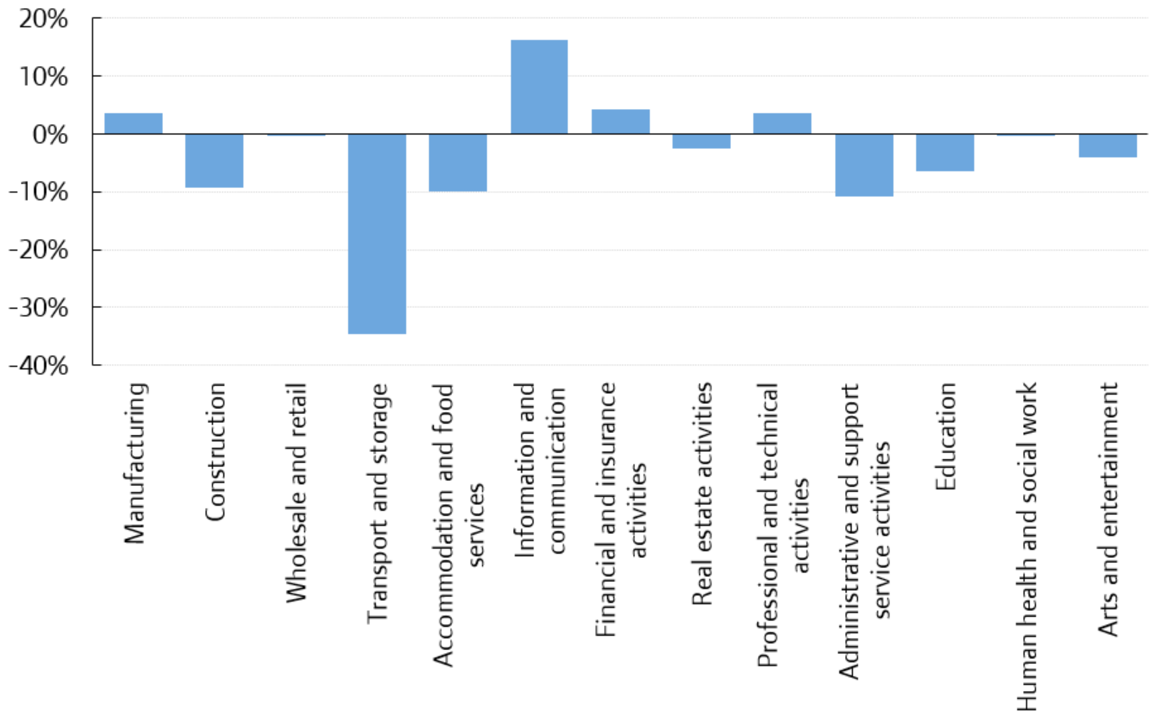
Based on the latest ONS regional economic output data up to 2022, the economic impact of the pandemic and the subsequent recovery have shown significant variation across London's sectors. Sectors reliant on in-person interactions, such as Accommodation and Food Services, Education, and Arts and Entertainment, were among the hardest hit. The Transportation and Storage sector experienced the most pronounced decline, with output plummeting by over 30%.

In contrast, London's core specialisms, such as Information and Communication, have performed strongly (Figure 3.2), with output comfortably exceeding pre-pandemic levels. Financial and Insurance Services, along with Professional and Technical Activities, also demonstrated robust recovery and sustained growth beyond their pre-pandemic benchmarks.

In the non-service economy, the Construction sector was notably impacted, with output remaining 10% below its pre-pandemic level by the end of 2022. Meanwhile, the Manufacturing sector showed resilience, achieving growth of approximately 4%, underscoring its ability to adapt to challenging circumstances.

These data reflect the uneven nature of the recovery, with London's economy shaped by both sector-specific dynamics and broader structural changes, such as the shift towards remote work in white-collar industries and evolving consumer preferences. As the city moves into 2025, some of these trends are expected to continue influencing its economic trajectory. For example, the accelerated digital transformation in sectors like Information and Communication and sustained growth in Financial and Professional Services are likely to remain key drivers of resilience. At the same time, the lingering effects of the pandemic on in-person service sectors, such as Transportation, Accommodation, and the Arts, may gradually fade as consumer behaviour normalises and economic conditions stabilise.

Figure 3.2: Proportionate change in real GVA by industry* in London 2019 – 2022



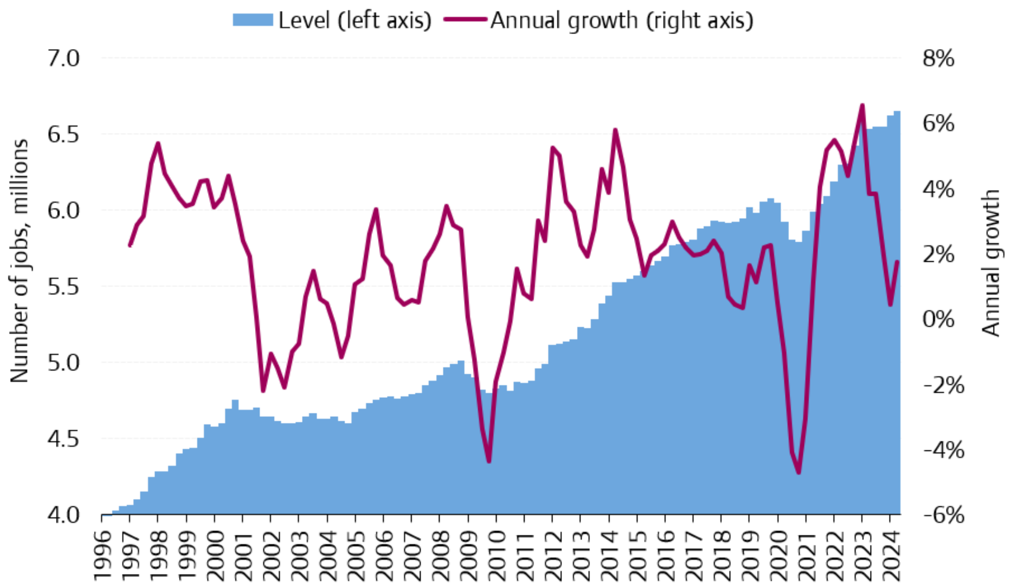
*Source: GLA Economics based on ONS – UK regional GVA and GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

The employment rate shows the share of residents aged 16-64 who are in work. This figure stood at 75.8% in the three months to September 2024, increasing 2.8 percentage points on the year, but 0.9 percentage points down from the three months to February 2020 prior to the pandemic. The unemployment rate shows the share of the resident population aged 16 and over who are unemployed but who are seeking and are available for work. This figure stood at 5.9% in the three months to September this year, 0.8 percentage points higher than a year earlier and 1.5 percentage points higher than the three months to February 2020. By comparison, the UK's employment rate stood at 74.8% in the three months to September and the unemployment rate was 4.4%.

The trend in the number of jobs in London's economy has been less volatile than the trend for output (Figure 3.3). Employment levels declined throughout 2020 but began a steady recovery in 2021. The government's furlough program, officially known as the Coronavirus Job Retention Scheme, was instrumental in maintaining the link between employees and their employers during the crisis. This policy enabled businesses to quickly scale up operations as the economy rebounded, reducing the costs associated with redundancies and recruitment while ensuring workers remained employed.

London's labour market rebounded to its pre-pandemic level by Q4 2021 and continued to grow positively, though at a gradually slowing pace. In Q1 2024, the labour market experienced a slight cooling, with the annual growth rate of workforce jobs (WFJs) moderating to 0.4%. However, growth regained momentum in the following quarter, with total workforce jobs reaching 6.65 million in Q2 2024—a remarkable increase of 569,000 jobs above the pre-pandemic peak. This sustained recovery underscores the resilience and adaptability of London's labour market, even as broader economic challenges persist.

Figure 3.3: Number of workforce jobs in London (Q1 1996 – Q2 2024)



Source: ONS Workforce Jobs

Other indicators also highlight positive trends for London's workforce. The inactivity rate among residents aged 16-64 has steadily declined from its post-pandemic peak of 23.5% in the three months to July 2023 to 19.4% in the three months to September 2024. Remarkably, this figure has reached its lowest level since 1992, even below the pre-pandemic level of 19.7% recorded in the three months to March 2020, signalling a significant recovery in workforce participation.

As noted in GLA Economics' 2022 labour market analysis[12], two-thirds of inactive Londoners expressed that they were likely or certain to re-enter the workforce in the future, although only one-fifth indicated a desire to work immediately. This suggests that many individuals who left the labour market during the pandemic, whether for health, caregiving, or other reasons, are gradually reconsidering their decision and transitioning back into employment. Additionally, the cost-of-living crisis may be a significant driver behind the historically low inactivity rate, as higher living costs prompt more individuals to seek employment to support their household finances.

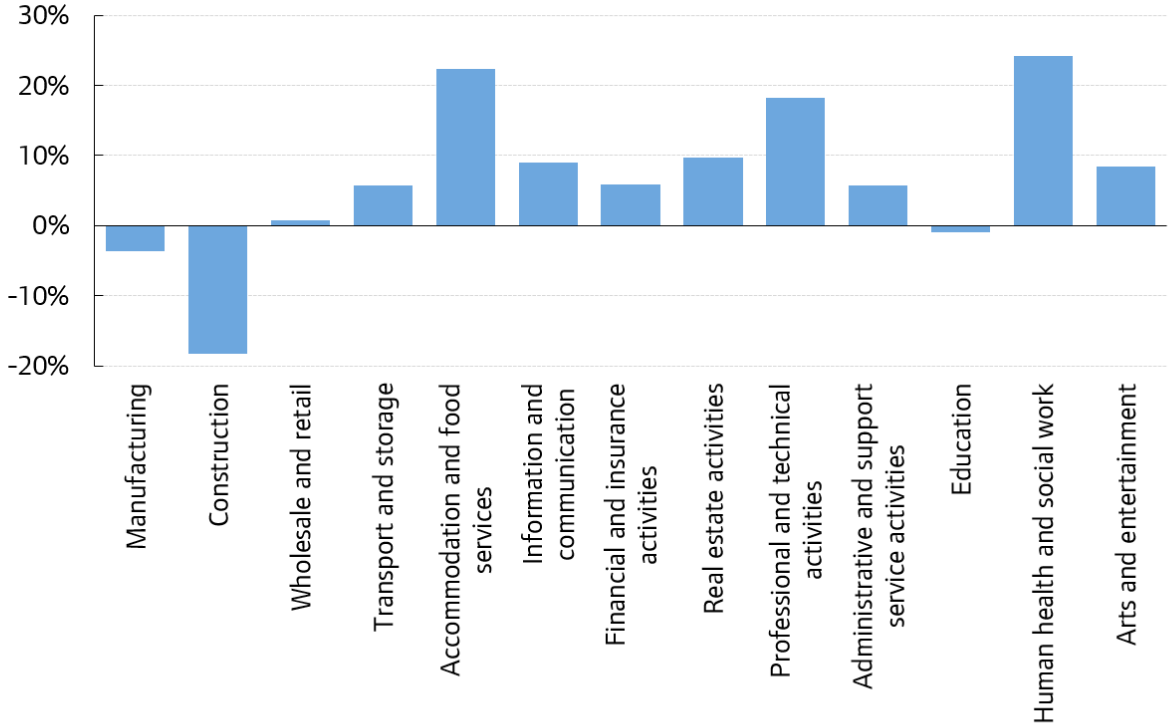
[12] GLA Economics (2022), "Out-of-work trends in London", November 2022. Accessible on the labour market analysis page.

As London's economy undergoes restructuring, the workforce landscape has experienced significant shifts. Figure 3.4 represents these changes, showcasing notable job growth in sectors such as Accommodation and Food Services, Professional and Technical Activities, and Human Health and Social Work.

In contrast, traditional sectors such as Manufacturing and Construction continue to face challenges, with stagnating or declining job numbers, pointing to structural issues and shifting economic priorities. Education has also seen a modest decrease in workforce jobs. This decline may be driven by the post-COVID shift toward online teaching and remote work, reducing the need for traditional in-person roles in educational institutions in the capital.

This pattern of job redistribution underscores how London's job market is adjusting to new realities and shifting economic conditions shaped by the impacts of COVID-19, Brexit, and rapid technological progress.

Figure 3.4: Proportionate change in workforce jobs by industry* in London Q4 2019 – Q2 2024

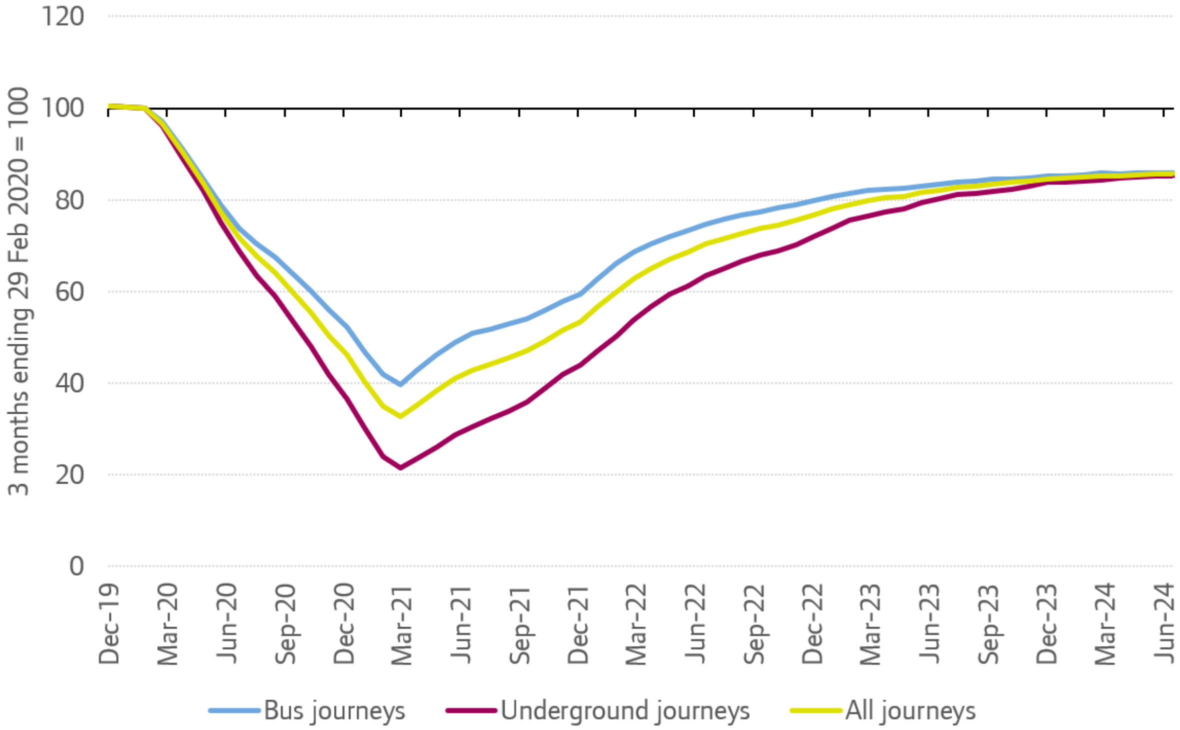


*Source: GLA Economics based on ONS – workforce jobs data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

Beyond formal GVA and employment statistics, weekly public transport usage also provides a snapshot of activity levels in London. Although this data does not differentiate between work and leisure journeys, both are significant drivers of the city's economic activity. While public transport usage under Transport for London (TfL) grew steadily in 2019, the first pandemic lockdown caused a dramatic collapse in usage. Since then, there has been a solid recovery, with transport use now approaching 90% of pre-pandemic levels as of the second half year of 2024 (Figure 3.5).

The lingering gap reflects enduring changes in travel behaviour. The widespread adoption of hybrid working models can be one key reason behind it. These trends have contributed to reduced spending in London's Central Activities Zone, a critical area for the city's economic vitality.

Figure 3.5: Level of public transport passenger journeys in London relative to pre-pandemic



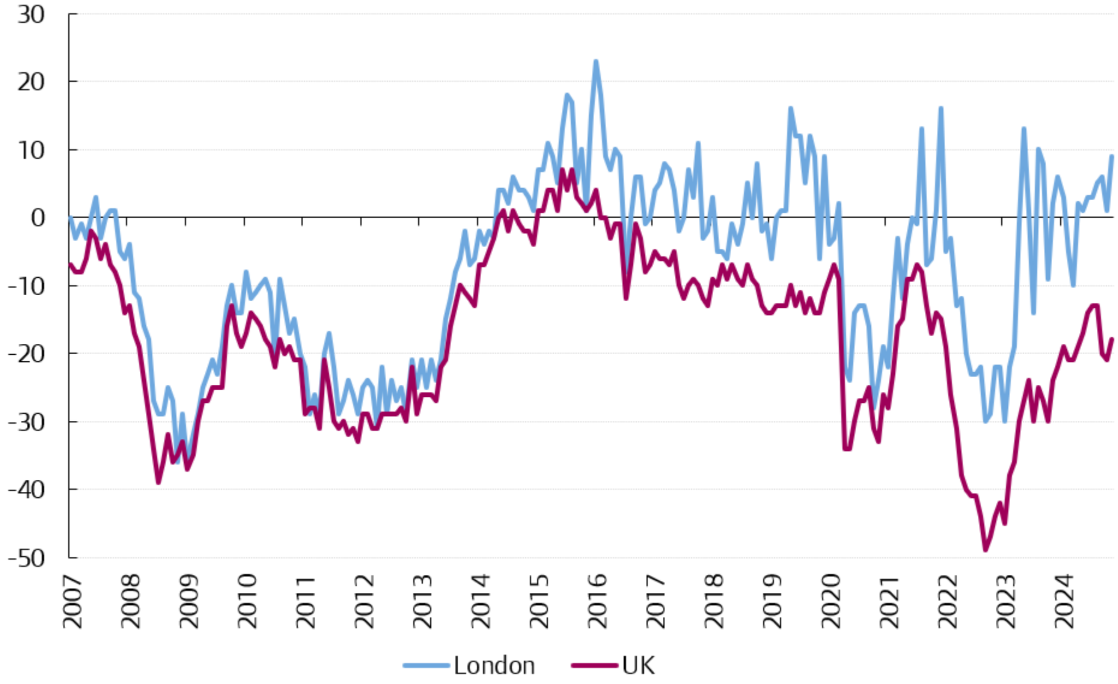
Source: GLA Economics based on Transport for London data. Notes: data is a twelve-month moving average; each series uses the twelve-month moving average at 1 to 29 February 2020 as its index reference. Due to the cyber incident at TfL, the release of passenger journey data has been postponed. Last data point is the 28-day period ending on 20 July 2024.

The GfK Consumer Confidence Barometer, a consumer confidence index, is a reliable indicator to measure how private consumption sentiment in London is being affected by overall uncertainty[13]. The data suggest that there has been a long-term trend of London households being more optimistic than national averages since 2016 (Figure 3.6). While consumer confidence in both London and the UK dropped sharply after the pandemic began, Londoners remained notably less pessimistic, avoiding the lows seen after the financial crisis, unlike the UK average. Confidence gradually recovered to pre-pandemic levels by mid-2021, with London returning to positive readings while UK sentiment stayed negative.

However, optimism faded during the third pandemic wave in late 2021, further declining through the winter of 2022/23 as inflation and the rising cost of living intensified. The UK gauge hit record lows, surpassing financial crisis levels, but London's index remained more resilient. In 2023, consumer confidence in London improved steadily in the first half, reflecting adjustments to the cost-of-living crisis. By April 2024, the index turned positive and saw sustained positive levels for seven months, while the UK measure remained persistently negative.

[13] The GfK Consumer Confidence Barometer reflects people's views on their financial position and the general economy over the past year and the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Figure 3.6: GfK Consumer Confidence Barometer for London and the UK



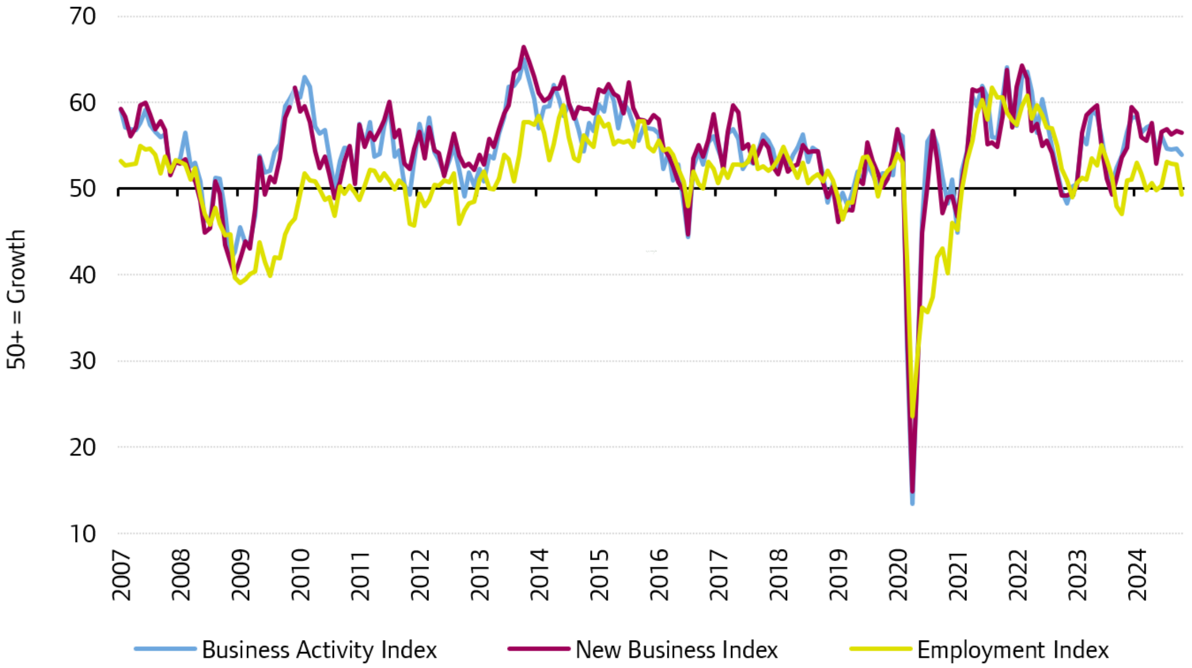
Source: GLA Economics based on GfK-NOP data. Last data point is November 2024.

Another high-frequency indicator that correlates strongly with economic activity is the Natwest London Purchasing Managers' Index (PMI) survey, which focuses on the sentiment of businesses in the capital[14]. In 2019, prior to the pandemic, PMI figures averaged slightly above 50, signalling modest growth. However, the onset of COVID-19 in early 2020 caused these indicators to plummet to record lows in March and April. A sharp, though uneven, recovery began by summer 2020, with PMI figures surpassing pre-pandemic levels by spring 2021, indicating rapid growth among London businesses (Figure 3.7).

While business sentiment remained relatively resilient during the third wave of the pandemic and the initial phase of the cost-of-living crisis, PMI readings for overall business activity and new business fell below 50 in subsequent periods. In 2023, sentiment was generally positive but weakened before improving modestly toward the end of the year, a trend that has continued into 2024. This recovery suggests that businesses are adapting to the impacts of the pandemic, inflationary pressures, and economic headwinds. However, the employment index has shown signs of strain, with negative readings recorded at the end of 2023 and fluctuating around 50 toward the end of 2024.

[14] PMI index readings are based around the 50 no-change mark. Readings above 50 suggest an overall increase in that variable, while readings below suggest an overall decline. Readings exactly at 50 suggest no-change in that variable compared with a month earlier. Moreover, the further the index reading is away from the 50 mark, the faster the rate of growth or decline.

Figure 3.7: Natwest PMI Business Activity for London, New Business and Employment Indices



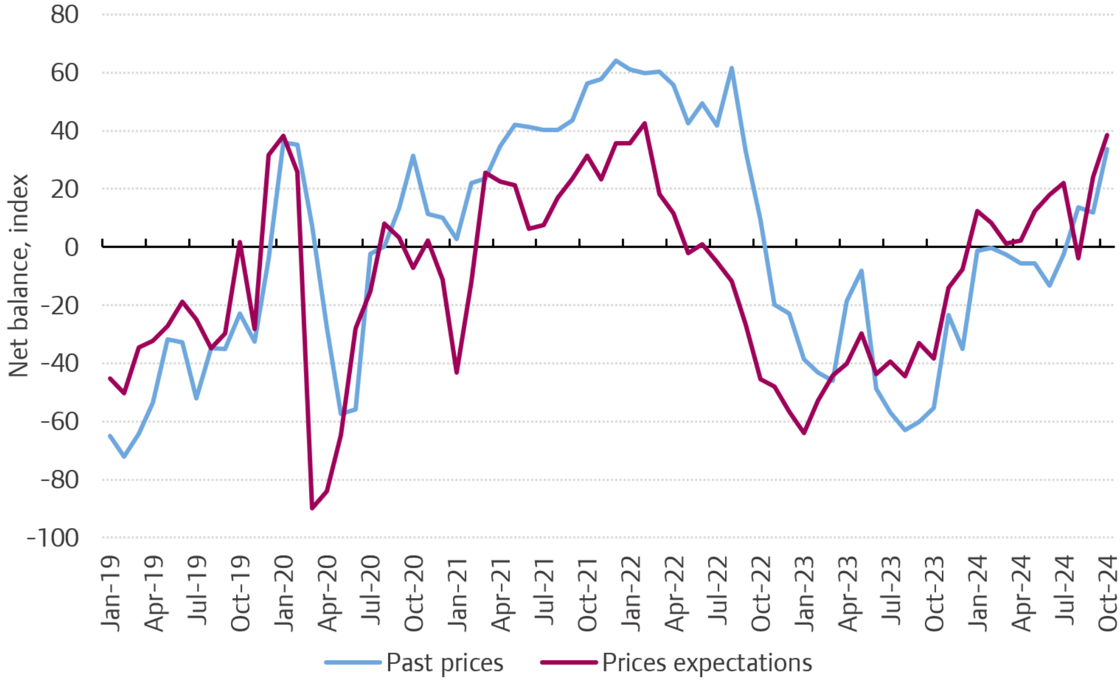
Source: GLA Economics based on IHS Markit data. Last data point is October 2024.

The housing market had been gaining momentum before the COVID-19 pandemic, with recent and expected house price gauges rising steadily throughout 2019. However, the pandemic caused an immediate shock to these measures. The backward-looking gauge dropped to early 2019 levels, while the forward-looking measure plunged to depths comparable to the financial crisis. From summer 2020 to spring 2021, both indicators experienced a volatile recovery as fluctuations in virus cases and restrictions impacted market activity (Figure 3.8).

The recent price gauge remained strong until August 2022, while expectations fell in mid-2021, rebounded to a peak in February 2022, and then declined again. By late 2022, both measures turned negative due to affordability challenges driven by soaring inflation, declining real incomes, and rising interest rates. The forward-looking gauge for expected prices turned negative in July 2022, followed by the backward-looking gauge in November 2022.

Entering 2024, both measures had returned to near-neutral but dipped slightly negative later in the year but rebounded immediately and continued to strengthen. By October 2024, both indicators had climbed to near 40, signalling renewed optimism and resilience in London's housing market.

Figure 3.8: RICS house prices net balance index for London, change during last three months



Source: GLA Economics based on RICS data. The net balance index measures monthly the proportion of property surveyors reporting a rise in prices minus those reporting a decline in the last three months. Last data point is October 2024.

Looking back at 2024, the ongoing impact of inflationary pressures and higher interest rates, which had weighed heavily on London's economy in previous years, were significantly alleviated. Inflation eased as global supply chains stabilised and energy prices moderated, and the Bank of England responded by reducing interest rates, lowering borrowing costs for businesses and individuals. These developments provided much-needed relief to businesses and households, helping to restore consumer confidence and support economic recovery.

Despite these positive shifts, challenges remained, particularly in sectors still adjusting to post-pandemic realities and tighter liquidity conditions. Productivity, a critical driver of long-term growth, showed mixed performance (an analysis of the impact of housing affordability on productivity and growth is examined in Box 3.1). While certain knowledge-intensive sectors, such as technology and professional services, demonstrated robust productivity gains, others—particularly consumer-facing and traditional industries—continued to struggle with inefficiencies and skill shortages. However, the overall economic environment in 2024 was more stable, allowing London’s economy to regain momentum and strengthen its resilience.

Box 3.1: The potential impacts of housing affordability on economic productivity and growth

Introduction

The availability and affordability of housing is consistently identified as one of Londoners' top priorities. For example, a GLA/YouGov survey of Londoners in October[15] of this year pointed out that nearly 40% of Londoners view affordable housing as a priority, with renters, those aged 25-49 and households on lower incomes in particular citing it as the key priority to address.

The consequences of unaffordable housing extend beyond the financial pressures individual households would face; there are systemic and broader social and economic effects from housing affordability problems that risk undermining macroeconomic growth and the sustainability of our quality of life in the long term. We examine how economic theory links housing affordability to economic growth, before delving into the findings of a recent study commissioned by the GLA on this very issue and describing its implications.

Background Information

There are several factors that lie behind the unaffordability of housing in London. Since the 2008 Financial Crisis, the Bank of England instituted a quantitative easing programme (which refers to the substantial purchase of government-issued bonds to inject money and liquidity into the economy) to mitigate the recessionary consequences of the crisis. One of this programme's side-effects has been the appreciation of asset valuations (including housing and real estate) as investors pursued alternative vehicles for wealth creation.

In addition to this, London (much like other UK regions) suffers from a housing supply/demand imbalance that worsened over the course of the past 15 years due to a combination of reduced new construction (as a result of increasing costs amongst other factors), growing investment in London's real estate by foreign individuals and entities[16], and an increase in vacant homes that are unavailable for occupancy (among other factors). Add to this the below-inflation increases in housing-related benefits, the broader effects of the cost-of-living crisis, and the impacts of both Brexit and the COVID-19 pandemic and the complexity (as well as interaction) of factors contributing to the housing affordability crisis in London become clear.

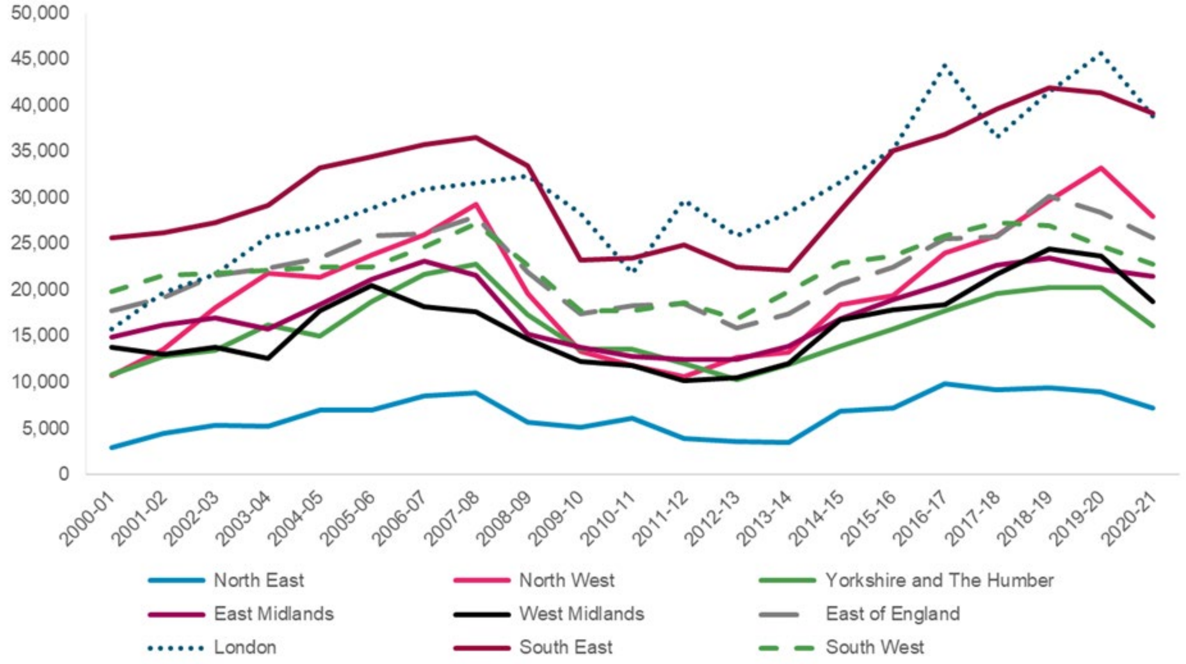
Since 2007, London's affordability (as measured by comparing average house prices and rental costs to average annual earnings) has "pulled away" from other regions. According to 2022 Office for National Statistics (ONS) data, 18 of the 20 least affordable local authorities in England were located in or around London[17]. In the 2022 Survey of Londoners that Ipsos Mori conducted for London Councils, both housing affordability and housing supply were included in respondents' top five issues facing Londoners. According to the latest ONS data available, the median price of new dwellings in London is at least 12.8 times median workplace earnings in the capital. This compares to 8.5 times in the Northeast of England, 8.6 times in Yorkshire and the Humber and 8.7 times in the Northwest[18].

Moreover, the supply/demand mismatch has become more pronounced. Housing supply has fallen short of the demand for new homes in London for many years and home building is currently facing

[15] According to GLA polling undertaken in October 2024.
[16] Centre for London (2023), 'Can London learn from Canada's ban on foreign property ownership?' April 2023
[17] https://www.bbc.co.uk/news/articles/c976lzzz1pno
[18] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2023#housing-affordability-in-england-and-wales

unprecedented economic headwinds. For example, data on permanent dwellings completed by region show that London has not demonstrated sufficient progress in adding new dwellings to its existing stock when compared to other England regions (Figure 3.9)[19] and the London Plan's adopted 2021 target of 52,300 homes a year from 2019/20 to 2028/29.

Figure 3.9: Total net additional dwellings by region



Source: MHCLG
Note: Sources of the data are the Housing Flows Reconciliation (HFR), the Greater London Authority and Regional Assembly joint returns

Alongside persistent challenges such as levels of government investment, funding and policy uncertainty and funding rigidity, market conditions over the past couple of years have been extremely challenging. Interest rates remain relatively high, and while the costs of construction materials have stabilised, they remain at very high levels. This means that the cost of development (including debt servicing) is more expensive. Higher rates of contractor insolvencies, in part because of these conditions, are also making development more expensive and uncertain.

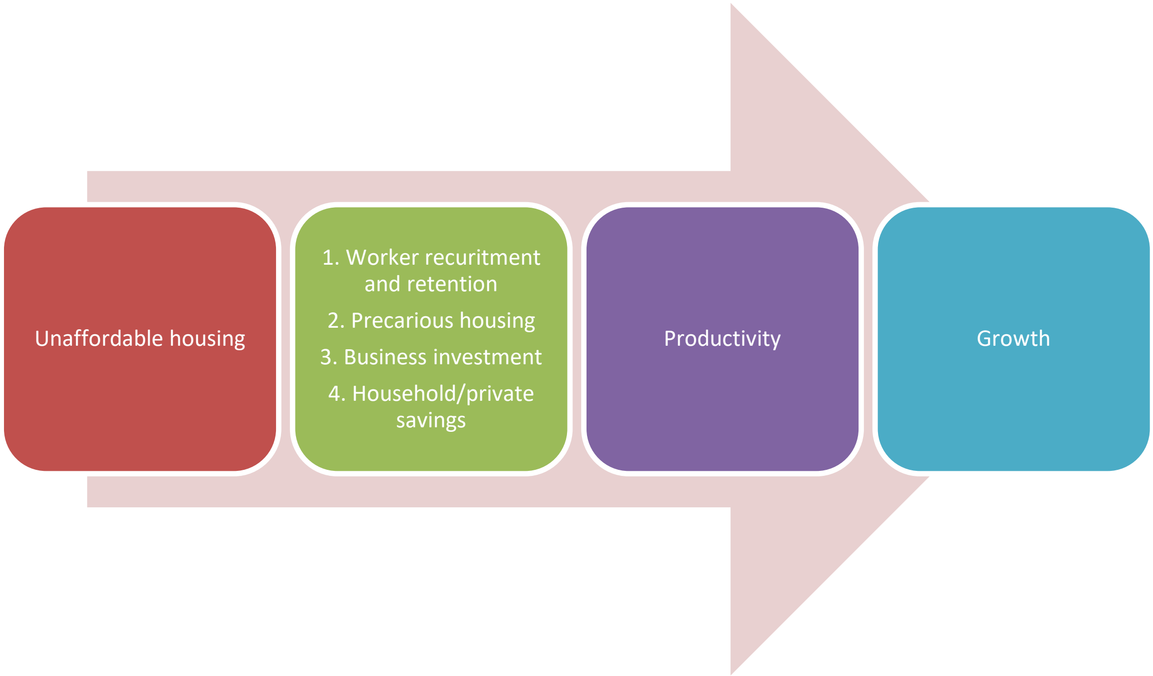
For social housing landlords, the combined effects of government policy to cap rent rises and mounting demand to tackle damp and mould, fire safety and energy efficiency are taking housing and development budgets to the point of being unsustainable. London's social housing stock has a lower level of decency than other parts of the country, driven by an older stock profile, a higher proportion of high-rise units, higher density development, and higher levels of overcrowding. Meanwhile, these factors are exacerbating the capital's temporary accommodation and homelessness crisis, with London Councils research showing that almost 1 in every 50 Londoners is in temporary accommodation (including 1 in every 23 children)[20].

[19] https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building
[20] London Councils research.

Housing affordability and economic growth: a theoretical framework

Economic theory posits several linkages and mechanisms via which unaffordable housing undermines economic growth; most of these mechanisms operate via unaffordable housing's impact on economic productivity (Figure 3.10).

Figure 3.10. Linking unaffordable housing to economic productivity and growth



A key mechanism via which unaffordable housing undermines productivity and growth is by inhibiting employers' ability to recruit new employees and retain existing ones. In a globalised environment characterised by competition for highly-skilled talent, London (as a global city) risks losing its ability to attract the best talent if an important commodity such as housing becomes unaffordable. Moreover, previous research by GLA Economics has demonstrated the effect unaffordable housing in London has had on the retention of key public-sector workers[21]. There is increasing evidence that Londoners aged 25-49 are relocating to areas outside the capital to secure more affordable housing, and the consequences to productivity on the one hand and economic growth on the other are grave.

Unaffordable housing also increases the likelihood that individuals of protected characteristics (especially those with more modest financial means) would not be able to secure stable housing arrangements and are hence likely to resort to either temporary accommodation or to become homeless. Existing research has shown that individuals in this situation find it more difficult to access employment and exhibit lower health outcomes, both of which would undermine their own productivity and, by extension, London's collective productive capacity. There are also well-evidenced links between housing instability and demand for public services, including healthcare services, mental health support, substance misuse treatment, recidivism and other interactions with the criminal justice system.

Furthermore, rising house prices are likely to encourage further investment by businesses into real estate, which could potentially crowd out investment in other, more productive sectors of London's economy[22].

[21] https://www.london.gov.uk/business-and-economy-publications/housing-affordability-and-public-sector-recruitment-london

[22] https://www.economicsobservatory.com/how-does-the-housing-market-affect-uk-productivity

There is also the possibility that rising house prices inhibit the efficient allocation of resources between firms[23], which has negative consequences on foreign direct investment, capital productivity, and overall macroeconomic growth.

Last but not least, as housing becomes less affordable, households find themselves with less disposable income to save. Other things equal, private household savings would decrease, thereby reducing the pool of funds used to invest in the economy and, by extension, boost both productivity and economic growth. It is worth noting, for example, that in London, private rents now represent just under 40% of household income, a more than 10 percentage point increase over the past seven years[24].

Figure 3.10 above presents a theoretical framework of how unaffordable housing undermines productivity and growth. As London's economy represents nearly 25% of the UK's, and since London remains the country's most productive region, unaffordable housing in the capital risks not only reducing London's productivity and growth but also that of the rest of the UK.

Quantifying the impact of unaffordable housing in London on economic productivity

Given the urgency of the housing affordability crisis in London, GLA Economics, in partnership with London Councils, Trust for London and the G15, commissioned a study that quantifies the extent to which unaffordable housing in London undermines the capital's economic productivity[25]. Performed by NERA Economic Consulting, this study used data from all local authorities in London and the Greater Southeast Region between 2002 and 2021 to measure the impact of declining housing affordability on productivity.

In the study, housing affordability is measured as the median house price of a given locality divided by the median wage within a 20-kilometre radius of each local authority, while productivity is measured as Gross Value Added (GVA) divided by number of employees in each locality. In terms of methodology, an econometric method known as Instrumental Variables (IV) regression was used to ensure a robust and reliable finding that circumvents the problems posed by the reverse causality channel that exists between housing prices and productivity.

The study's key finding is that a 1% increase in housing affordability (for example, a 1% reduction in the house price to wage ratio that would make dwellings more affordable) would increase productivity in London by 0.14%. This would verify the notion that housing affordability adversely undermines economic productivity. The analysis was done at both the borough level within London as well as for London as a whole.

In terms of city-wide effects, the study shows that a 1% improvement in housing affordability could generate an extra £7.3 billion for London over a 10-year period. Moreover, while the majority of this extra income (92%) accrues to London itself, 8% would accrue to other parts of the country, reinforcing the notion that improving housing affordability in the capital would benefit other UK regions also.

The same relationship holds whether we examine Inner or Outer London boroughs. If we use Islington as an example of an Inner London borough, then a 1% improvement in housing affordability would increase

[23] https://www.sciencedirect.com/science/article/abs/pii/S0261560624001517
[24] https://data.london.gov.uk/dataset/state-of-london
[25] The full study can be accessed here https://www.london.gov.uk/programmes-strategies/business-and-economy/business-and-economy-publications/housing-affordability-and-economic-productivity

the borough's GVA by approximately £226 million over a 10-year period. Meanwhile, for a borough such as Bromley, the figure would be £133 million.

This study represents a unique effort to quantify the economic effect of unaffordable housing on productivity and growth. It reinforces the theoretical framework presented earlier, while crucially highlighting the substantive effects on productivity in surrounding local authorities from housing policy interventions. This lends further weight to the role that regional government bodies (rather than just boroughs or local authorities) can play in reducing affordability pressures and mitigating their negative consequences.

Final considerations

It is widely acknowledged that the UK's productivity has been relatively feeble since the 2008 Financial Crisis. While London continues to be the most productive region, it is worth noting that the city's year-on-year growth in productivity since the onset of the Financial Crisis has been relatively weak, even when compared to other UK regions. Boosting London's productivity growth becomes imperative given the capital's role as the country's economic engine, and a crucial component of any strategy to do this would be to reduce the affordability pressures in the city's housing sector. A challenging economic environment coupled with acute geopolitical uncertainty render alleviating this crisis more urgent and necessary than ever before.

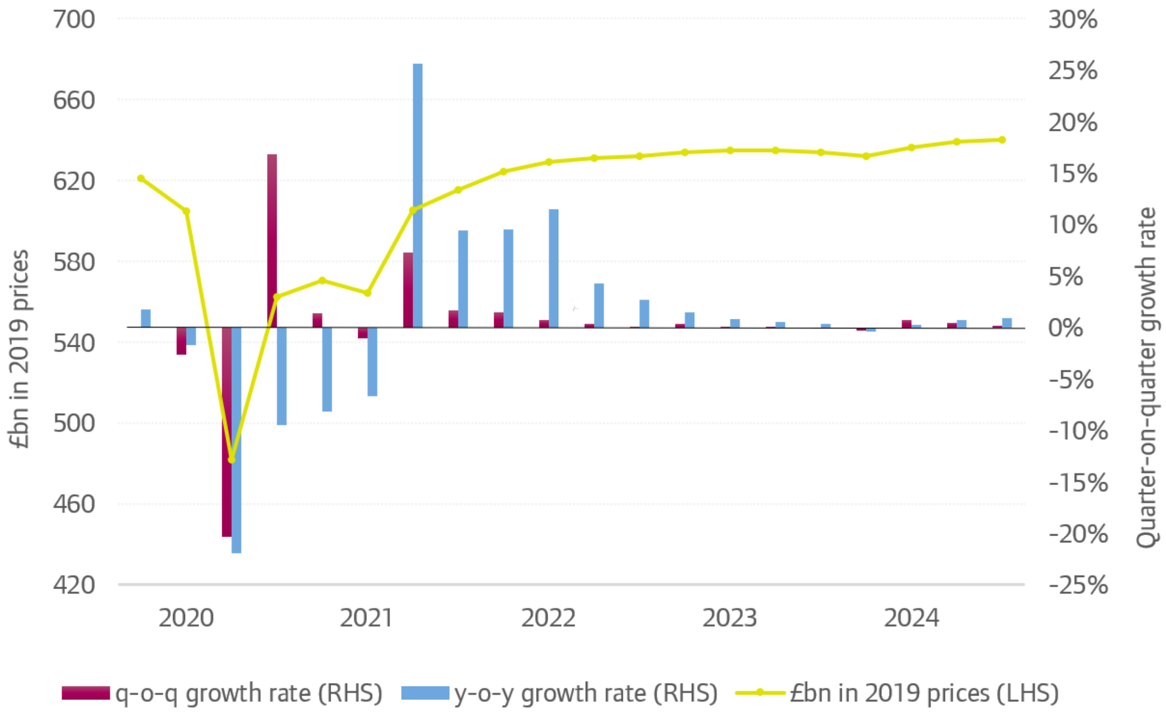
3.2 The UK economy

Following the sharp decline in economic activity during the first half of 2020, driven by lockdown restrictions to curb the COVID-19 pandemic, the UK economy rebounded strongly in Q3 2020. However, the recovery was short-lived, as the second lockdown in late 2020 led to another contraction in Q1 2021. This was followed by a robust rebound in Q2 2021 and a more gradual recovery thereafter (Figure 3.11).

By 2022 and 2023, economic growth stagnated as the cost-of-living crisis began to weigh heavily on consumer spending, compounded by the impact of rising interest rates. Toward the end of 2023, the economy slipped into a mild recession but managed to exit it by early 2024.

In the first two quarters of 2024, the UK economy showed signs of renewed momentum, achieving growth rates of 0.7% and 0.5%, respectively. However, this momentum faltered in Q3 2024, with growth slowing to just 0.1%.

Figure 3.11: UK real GDP (Q4 2019 – Q3 2024)



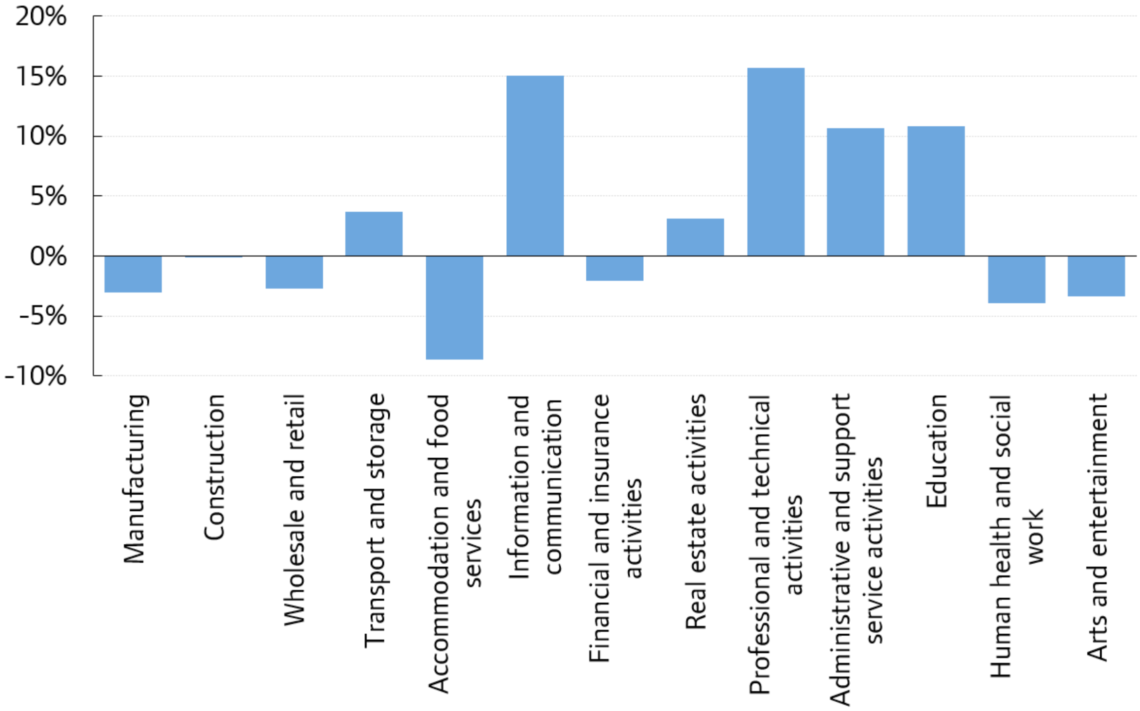
Source: GLA Economics based on ONS – UK National Accounts data.

Similar to London, the wider UK has experienced uneven sectoral impacts from the pandemic and subsequent recovery, as shown by the latest economic data compared to the end of 2019. Accommodation and Food Services saw a significant decline of 8.6%, with Human Health and Social Work, Arts and Entertainment, and Wholesale and Retail also recording reductions in output ranging from 2.7% to 3.9%.

In contrast, several sectors showed robust growth. Professional and Technical Activities and Information and Communication expanded by more than 15%, reflecting strong recoveries and ongoing sectoral development. Education and Administrative and Support Service Activities also both grew by over 10%.

Traditional sectors presented mixed results, with Manufacturing experiencing a decline, Construction remaining relatively flat, and Transportation and Storage achieving an increase of 3.7% (Figure 3.12). This varied performance highlights the differing resilience and adaptability of sectors in response to recent economic shocks and evolving market conditions.

Figure 3.12: Proportionate change in real GVA by industry* in the UK Q4 2019 – Q3 2024



*Source: GLA Economics based on ONS – UK GDP data. *The following smaller industries have been excluded for simplification purposes: Primary sector and utilities, Public administration and defence, Other service activities, and Activities of households.*

GDP data can be divided into various components of final expenditure, including spending by households, general government, non-profit institutions serving households, and gross capital formation (e.g., business investment). In the year to Q3 2024, gross fixed capital formation showed significant growth. General government and household expenditure also recorded steady increases, while the non-profit institutions sector experienced a decline (Table 3.1).

Table 3.1: Annual rates of real growth in domestic final expenditure for the UK

	2022	2023				2024		
Expenditure	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Households	3.8%	2.1%	0.8%	0.0%	-0.7%	0.3%	0.0%	1.2%
Non-profit institutions	10.0%	9.9%	3.2%	3.3%	1.0%	0.7%	0.0%	-0.6%
General Government	-2.2%	-2.8%	2.2%	1.5%	1.7%	2.7%	2.1%	1.8%
Gross fixed capital formation	2.7%	1.6%	0.0%	-1.9%	0.0%	-1.4%	0.7%	3.6%

Source: ONS (2024). 'GDP first quarterly estimate, UK: July to September 2024', 15 November 2024.

Household expenditure, which constitutes approximately 60% of UK GDP in 2024, exhibited growth through most of 2023 but weakened slightly in Q4 2023. After a period of stagnation in early 2024, household spending regained momentum with a notable 1.2% increase in Q3 2024. Gross capital formation, which had seen robust growth since the pandemic, experienced a setback in Q1 2024 but rebounded strongly in Q3, growing by 3.6%.

General government expenditure, which turned negative in early 2022, has shown consistent recovery since Q2 2023, reflecting the impact of stabilising public finances (for more on public sector finances see Box 3.2). In contrast, expenditure by non-profit institutions dropped slightly into negative territory in Q3 2024 after a period of fast growth.

Box 3.2: Fiscal Policy and the UK Budget

Fiscal policy is crucial in shaping a nation's economic future by influencing growth, equity, and resilience. In the UK, the annual budget is more than just a financial statement; it serves as a strategic tool for aligning short-term actions with long-term national objectives. The Autumn 2024 Budget [26]attempts to follow this approach, with it aiming to balance investments in key sectors with fiscal responsibility.

The UK's budget thus focuses on investments with an aim to drive sustainable outcomes, and also address immediate needs while positioning the country for future growth. It does this by prioritising infrastructure, green technologies, and social equity. We will examine the new government's fiscal priorities whilst setting them into context.

Historical context and the current fiscal landscape

The UK's fiscal policy has evolved significantly over the years. From its early roots in financial management under Sir Robert Walpole in 1733, the UK has seen dramatic shifts in fiscal philosophy. After World War II, Keynesian economics focused on public investment and welfare to rebuild the economy. However, by the 1980s, the government adopted a different approach under Margaret Thatcher, which prioritised a smaller state and economic liberalism. The election of Tony Blair in 1997 saw the Government gradually increase public sector investment, while the 2008 Financial Crisis saw a large fiscal response. The election of the Coalition Government in 2010 then saw policies which were aimed at reducing the fiscal deficit.

Today, the new UK Government is focusing on investments in areas like transport, green energy, and technology. This investment-driven approach aligns with the approach of a number of other countries which focuses on using fiscal policy to foster sustainable, long-term growth. To address this the new Chancellor of the Exchequer, Rachel Reeves, announced two new key principles:

- **The Stability Rule**: This ensures that day-to-day spending is balanced with tax revenues, with borrowing restricted to investments in projects that drive long-term growth.
- **The Investment Rule**: This introduces Public Sector Net Financial Liabilities (PSNFL), allowing more flexibility in borrowing for long-term investments while keeping public finances sustainable.

These principles aim to help ensure that the UK uses its fiscal resources efficiently, targeting investments that promise long-term returns.

Key strategic investments in the Autumn 2024 Budget

The Autumn 2024 Budget reflects both national priorities and international ambitions. By focusing on high-return areas like infrastructure, technology, and clean energy, the UK is making investments that the Government hopes will strengthen the economy for years to come.

Key investments include:

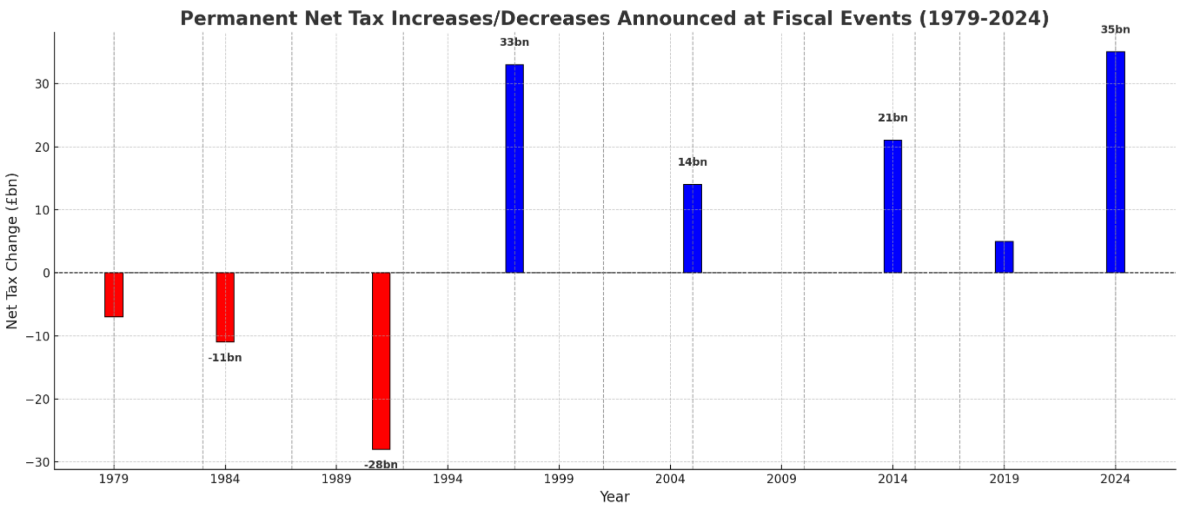
- **Healthcare**: £22.6 billion for the NHS, aimed at reducing waiting times and improving services, with an additional £1.5 billion for new surgical hubs and £2 billion for NHS technology and digital improvements.
- **Housing**: £500 million to create 33,000 new homes through the Affordable Homes Programme; this is aimed at addressing the housing crisis and promoting social stability.

[26] HM Treasury, Autumn 2024 Budget, (2024).

- **Education**: £1.4 billion to continue the School Rebuilding Programme, with the aim being to ensure the continued improvement of education infrastructure.
- **Clean Energy and Infrastructure**: £30 billion for net-zero and clean energy projects, including expanding wind, solar, and nuclear power which is aimed to help the UK lead the global transition to green energy.
- **Research and Development (R&D)**: £20.4 billion for science and technology, with full funding for the Advanced Research and Invention Agency (ARIA) to drive economic growth through innovation.

These investments highlight the importance placed by the new Government on using fiscal space to encourage long-term sustainable growth. Figure 3.13 illustrates the significant net tax increases announced at key fiscal events since 1979, highlighting the change in fiscal policy in the Autumn 2024 Budget.

Figure 3.13: Permanent Net Tax Changes Announced in UK Fiscal Events (1979-2024)



Source: ONS and OBR

Long-term risks and opportunities

While the UK's fiscal approach offers a chance to address long-term challenges, it is not without risks:

- **Rising Public Debt**: Increased investments in infrastructure and social programs could lead to higher public debt. However, the UK's fiscal rules and independent oversight aim to mitigate this risk by ensuring that investments yield long-term returns.
- **Political Backlash**: There may be political opposition, especially if some investments are seen as favouring businesses over social priorities.

While Europe's fiscal challenges are often tied to legacy debts and structural deficits, the UK's new fiscal approach attempts to use targeted investments to unlock substantial growth potential. By prioritising high-return areas like infrastructure, green energy, and digital innovation, the UK is also attempting to set itself up to lead in these sectors.

Conclusion

The Autumn 2024 UK Budget marks a pivotal moment in the Government's bid to address both immediate challenges and long-term growth objectives. By prioritising investments in infrastructure, technology, and social equity, the Government is trying to lay the groundwork for a resilient, future-proof economy. While these investments may incur higher short-term costs, as Mario Draghi suggests, strategic use of fiscal space can unlock significant long-term benefits, driving sustainable growth[27].

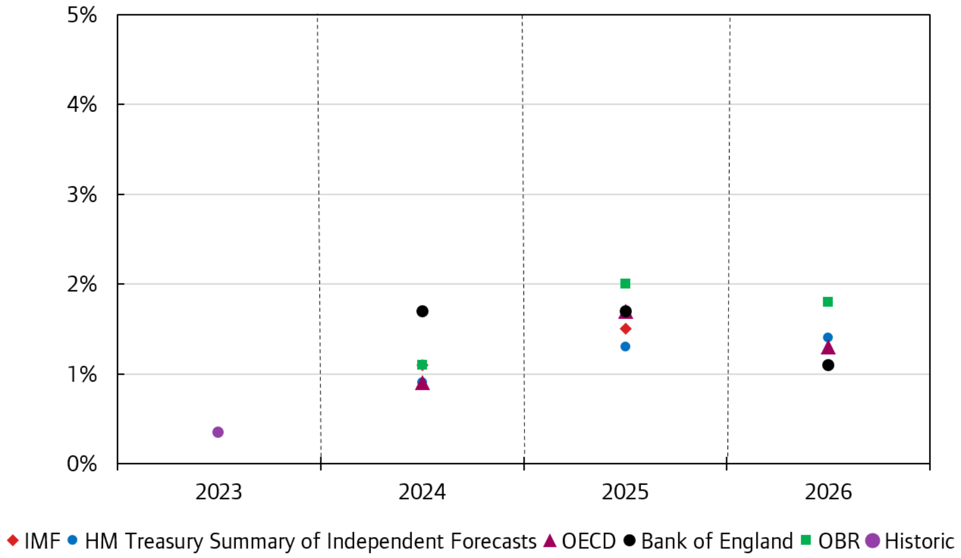
As long as development and spending are carefully monitored and investments are aligned with sustainable growth goals, the country may see economic and social benefits from this approach. However, rigorous oversight, coupled with a strong commitment to long-term objectives, will be needed to guide these investments toward building a more prosperous and competitive future, to position the UK as a leader in sectors like clean energy and technological innovation.

In this context, the initial costs outlined in the budget—though challenging in the short term—may be an investment. With fiscal discipline and accountability, the UK may achieve its strategic goals, fostering a dynamic, future-ready economy and securing long-term economic growth.

Forecasts of the UK economy

Looking ahead, the UK economy is navigating a complex landscape marked by the aftermath of the cost-of-living crisis, subdued global growth, and persistent productivity challenges. While inflationary pressures have eased, high interest rates continue to temper economic activity. Recent data indicates a deceleration in growth, with the economy expanding by 0.3% in 2023. Forecasts for 2024 suggest a modest recovery, with growth projections ranging from 0.9% to 1.7%. Looking further ahead, growth estimates for 2025 vary between 1.3% and 2.0%, reflecting cautious optimism amid ongoing structural adjustments. The Organisation for Economic Co-operation and Development (OECD) has just adjusted its 2025 growth forecast for the UK to 1.7%, up from an earlier estimate of 1.2%, attributing this revision to increased government spending. However, this fiscal stimulus may lead to higher inflation and reduced private investment, and the Bank of England anticipates only a gradual reduction in interest rates over the next year to 2026 (Figure 3.14).

Figure 3.14: Historical data and external forecasts of UK real GDP growth for 2023-2026



Source: GLA Economics based on ONS, HM Treasury summary, Bank of England, OECD, IMF, and OBR projections

[27] European Commission, The Future of European Competitiveness, (2024).

The OBR and HM Treasury also publish forecasts for other variables like the labour market and public-sector net borrowing (PSNB). These are shown in Table 3.2.

Table 3.2: Selected OBR and HM Treasury consensus forecasts for the UK economy

	HM Treasury's Average of Independent Forecasters (November 2024)			Office for Budget Responsibility (October 2024)		
	2024	2025	2026	2024	2025	2026
Annual real GDP growth rate	0.9%	1.3%	1.4%	1.1%	2.0%	1.8%
LFS unemployment rate	4.3%	4.4%	4.4%	4.3%	4.1%	4.0%
Current account	-£89.0bn	-£89.2bn	-£88.1bn	-£96.2bn	-£88.9bn	-£96.5bn
Public sector net borrowing (financial year)	£109.5bn	£93.2bn	£76.9bn	£127.5bn	£105.6bn	£88.5bn

Sources: HM Treasury (2024). 'Forecasts for the UK economy: a comparison of independent forecasts', November 2024; and OBR (2024). 'Economic and fiscal outlook – October 2024', October 2024.

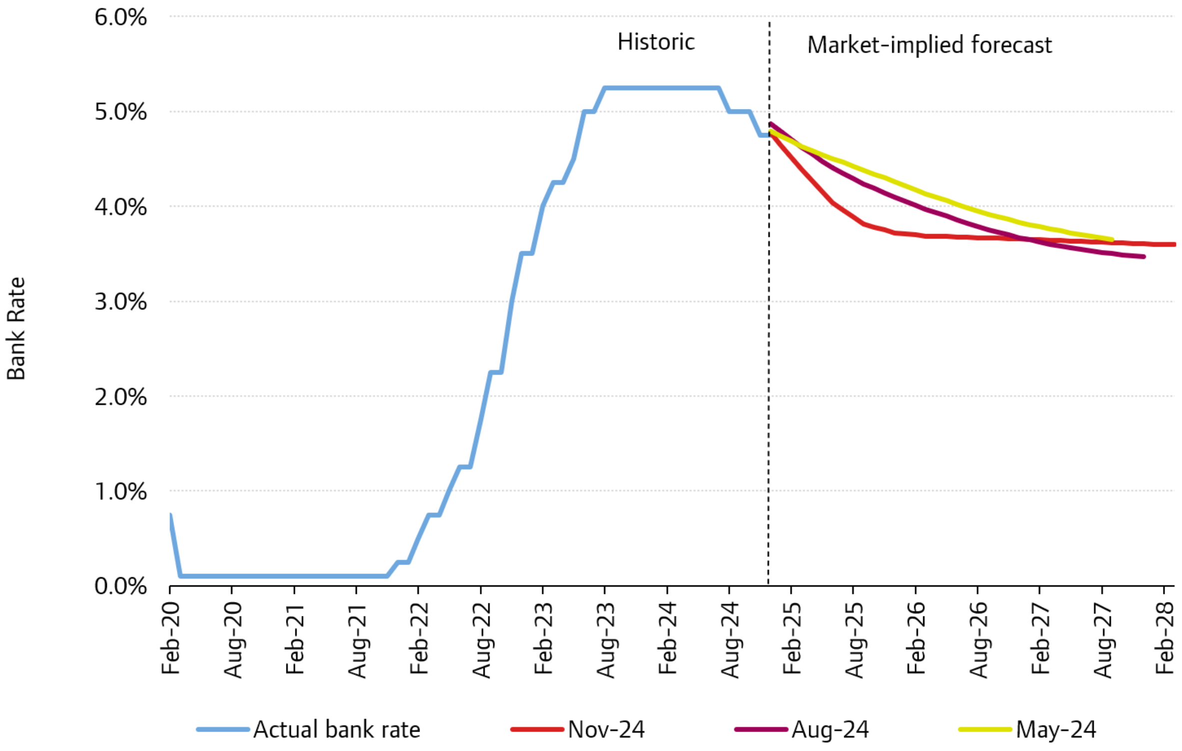
Other UK economic indicators

Beyond GDP, another important economic indicator is inflation, as measured by the Consumer Price Index (CPI). Following the 2016 EU referendum, the depreciation of sterling pushed inflation above the Bank of England's 2% target through 2017-2018 before subsiding to 1.5% by March 2020. The pandemic further dampened inflation as weak demand kept price increases subdued. However, the easing of lockdowns released pent-up demand, while supply chain bottlenecks and Brexit-related disruptions pushed inflation back above target by late 2021.

Russia's invasion of Ukraine in early 2022 escalated the situation, driving energy and food prices to historic highs. CPI inflation peaked at 11.1% in October 2022, its highest level since 1981, before falling and reaching the Bank's 2% target in May 2024, a level at which it has hovered around since then.

Interest rates followed a similar trajectory. After keeping rates near zero for most of the 2010s, the Bank raised rates in response to the inflation spike in 2017 but cut them sharply during the pandemic to a record low of 0.1%. The inflation surge from autumn 2021 led to the fastest rate hikes since the 1980s, with rates reaching 5.25% by August 2023. Since August 2024 the Bank has cut the base rate twice with further gradual easing expected over the coming years as inflation stabilises (Figure 3.15).

Figure 3.15: Market-implied interest rate path for the UK



Source: Bank of England (2024), '[Monetary Policy Report – November 2024](#)'.

The sterling exchange rate has experienced significant fluctuations over the past decade, reflecting major economic and political developments. The value of sterling fell sharply following the EU referendum in June 2016, reflecting market uncertainty about Brexit's economic implications. While sterling stabilised against the euro from mid-2017, it saw marked volatility in the second half of 2019 as fears of a no-deal Brexit grew, followed by a rebound when a deal appeared more likely. Against the US dollar, sterling appreciated through 2017 and early 2018 but subsequently declined, largely due to continued Brexit uncertainty.

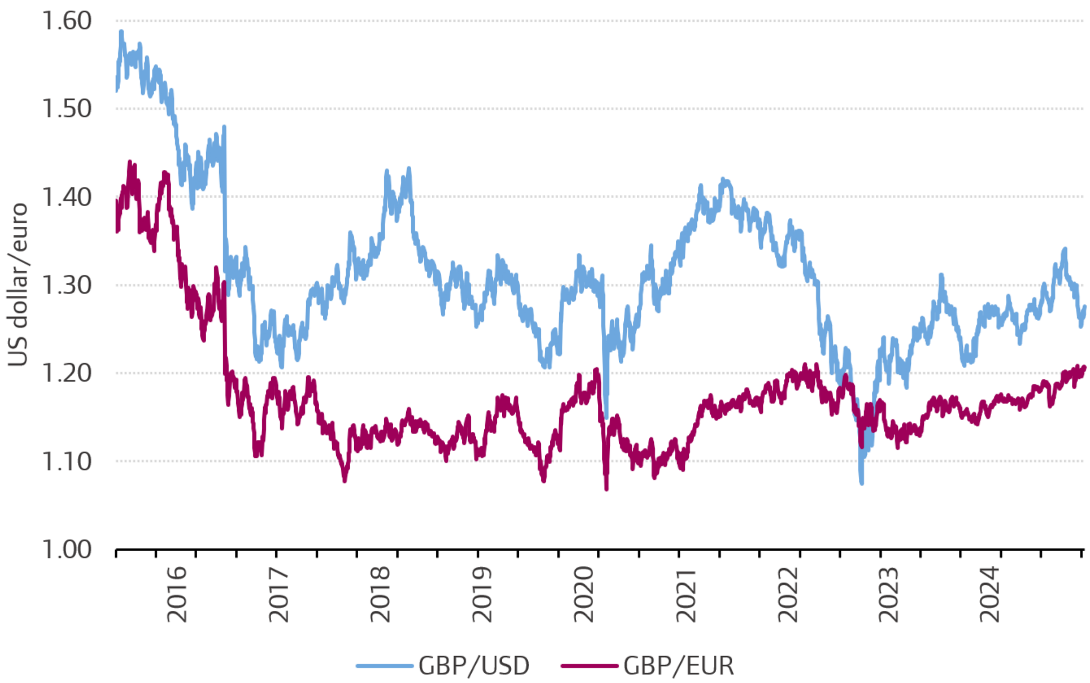
In March 2020, as the economic impact of COVID-19 became apparent, sterling depreciated sharply against both the dollar and the euro. This was partly driven by a flight to safer currencies and partly by concerns over the comparative weakness of the UK economy post-Brexit. Fluctuations in US economic conditions allowed the pound to recover somewhat against the dollar but weaken again following the US election in 2020.

From 2021, the pound regained strength against the euro, initially due to the UK's successful vaccination rollout and later due to expectations of interest rate hikes by the Bank of England. However, during the cost-of-living crisis in 2022, sterling weakened against both the euro and the dollar as investor sentiment towards the UK economy soured.

The mini-budget of September 2022 marked a low point for sterling, as unfunded tax cuts and surging government borrowing concerns led to a sharp depreciation, with the pound hitting its lowest level against the dollar since 1984. This triggered a loss of investor confidence in UK government bond markets, further pressuring the currency.

Since late 2022, sterling has regained much of its losses as government policies stabilised and investor confidence improved. By the end of 2024, sterling is stronger against the euro, reflecting improved UK economic stability and weaker eurozone performance. Against the US dollar, sterling reached a recent peak in September 2024, driven by expectations of slower US economic growth and Federal Reserve rate cuts, but has since fallen due to signs of stronger-than-expected US economic resilience and renewed demand for dollar-denominated assets (Figure 3.16).

Figure 3.16: Sterling to US dollar and euro exchange rates



Source: Bank of England
Note: First data point is 1 July 2015, and last data point is 5 December 2024.

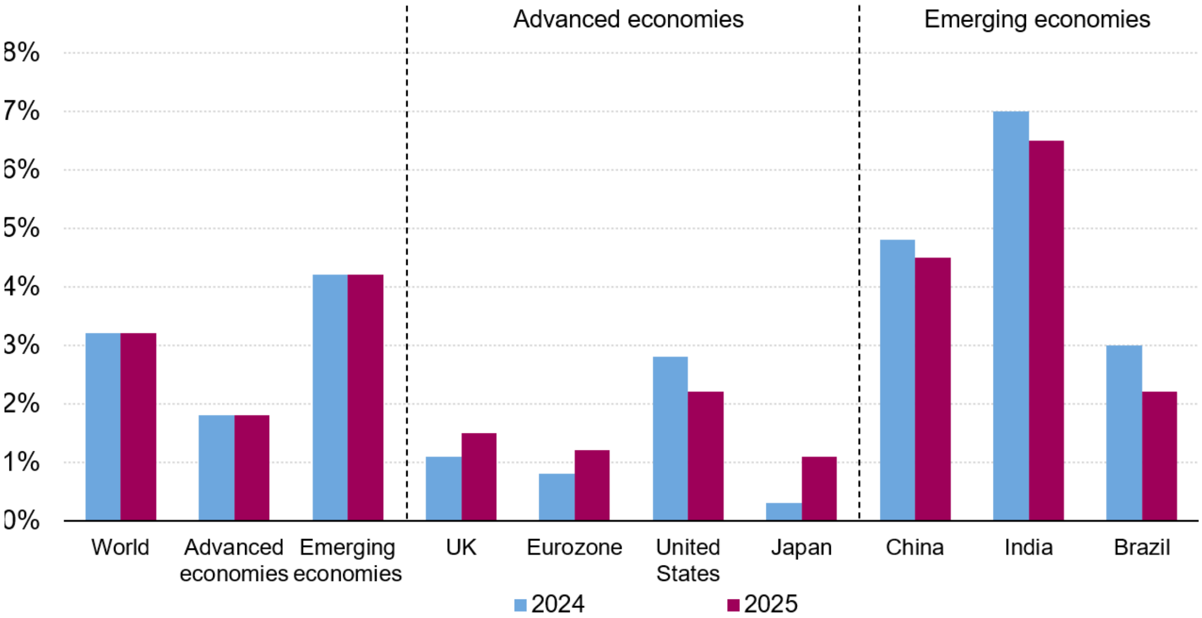
3.3 The global economy

In 2022 and 2023, the global economy demonstrated resilience amid challenges such as the war in Ukraine and persistent supply chain disruptions, which elevated inflationary pressures. Central banks worldwide responded by raising interest rates, leading to a deceleration in growth towards the end of 2022 and into 2023. Despite these hurdles, the IMF observed that the world avoided a recession, the banking system remained largely stable, and major emerging markets did not experience sudden stops. The IMF attributed this resilience to factors including the fading of earlier energy price shocks, a rebound in labour supply supported by strong immigration flows in many advanced economies, and decisive monetary policy actions that helped anchor inflation expectations[28].

Looking ahead, the IMF's October 2024 World Economic Outlook projects global growth to stabilise at 3.2% in both 2024 and 2025, indicating a steady yet modest expansion. Advanced economies are expected to grow by 1.8% in 2024, while emerging market and developing economies are projected to expand by 4.2% (Figure 3.17). This stability highlights ongoing recovery efforts and the successful navigation of inflationary pressures and monetary tightening.

[28] IMF (2024). 'World Economic Outlook: Policy Pivot, Rising Threats', October 2024.

Figure 3.17: IMF forecasts of real GDP growth for selected economies



Source: IMF – World Economic Outlook, October 2024.

Among **advanced economies**, the IMF projects that the **United States** will grow by 2.8% in 2024 before slowing to 2.2% in 2025. The **Eurozone** lags behind, with projected growth of 0.8% in 2024, improving slightly to 1.2% in 2025. **Japan** is expected to grow modestly at 0.3% in 2024 and 1.1% in 2025. The **UK** is forecasted to expand by 1.1% in 2024, rising to 1.5% in 2025, as it gradually adjusts to the post-Brexit and post-pandemic environment.

Emerging markets remain the primary drivers of global growth. **India** leads with impressive growth projections of 7.0% in 2024 and 6.5% in 2025, supported by strong domestic demand and structural reforms. **China** is forecasted to grow by 4.8% in 2024 and 4.5% in 2025, reflecting its shift towards consumption-led growth. **Brazil** is expected to grow by 3.0% in 2024, moderating to 2.2% in 2025 as commodity price pressures ease. These figures for the three key emerging economies in the IMF's October forecast are higher than those in its April projections, highlighting improving growth prospects driven by resilient domestic activity and better-than-expected adjustments to global challenges.

This economic outlook underscores a stable yet cautious global recovery, with advanced economies managing slower growth and emerging markets maintaining robust expansion.

3.4 Risks to London's economy

London emerged from the pandemic and the cost-of-living crisis with notable resilience, but economic growth in 2023 remained sluggish. The city faces a mix of opportunities and risks, with the latter dominating the outlook. On the upside, households in London continue to display resilience due to higher average incomes compared to other regions and relatively lower spending on energy. This resilience is reflected in less pessimistic consumer and business confidence readings compared to the UK as a whole. Furthermore, London's export-oriented sectors, such as professional services and technology, have shown strength, with services exports growing robustly and contributing positively to incomes. The influx of skilled workers and students has also boosted labour supply and human capital, further supporting economic activity.

However, downside risks remain prominent. Housing costs in London are escalating, with rising rents and elevated mortgage rates placing increasing pressure on household budgets. Private landlords exiting the market could worsen the mismatch between housing supply and demand, compounding affordability issues. Inflationary pressures, though reduced, persist as wage growth has outpaced inflation in recent months. If firms pass on higher labour costs to consumers, it could trigger a wage-price spiral, further eroding household purchasing power and dampening economic activity.

London's labour market shows encouraging signs, with inactivity rates now below pre-pandemic levels, reflecting a recovery in labour force participation. However, challenges remain, particularly among specific demographics, such as older workers, where participation rates have not fully recovered. While the reduction in inactivity improves the city's labour pool and output potential, the combined effects of the pandemic and the cost-of-living crisis still pose risks of persistent unemployment and skill mismatches, which could hinder long-term productivity growth and economic recovery.

Geopolitical risks present additional threats. While conflict has been relatively contained so far, any escalation could lead to renewed energy price shocks, exacerbating inflationary pressures. Meanwhile, elections in major economies like the US and Europe could result in more protectionist policies, undermining global trade and London's economic outlook.

The risk of reduced business investment remains significant, as high interest rates and modest growth expectations deter capital expansion. This threatens to undermine London's competitiveness, slow productivity advancements, and diminish its appeal as a global hub for business and investment. Over time, a decline in London's role as an international economic centre could weaken output and limit its long-term growth prospects.

While London has demonstrated strength through higher incomes, resilient export sectors, and strong migration flows, the risks from rising costs, inflation, geopolitical instability, and long-term economic scarring remain substantial. Addressing these challenges will require sustained focus on fostering investment, enhancing productivity, and supporting labour market recovery to secure London's economic future.

3.5 Conclusion

London's economy has shown remarkable resilience in the face of multiple crises over the past half-decade, including the pandemic, the cost-of-living crisis, and Brexit-related disruptions. While economic growth in 2023 moderated, there are signs of stabilisation and recovery this year. Key sectors in which London traditionally excels, such as finance, professional services, and technology, keep driving economic momentum. These gains have helped sustain household incomes and supported a rebound in consumer-facing sectors.

Stepping back from central projections, the path ahead is far from certain. Structural challenges, including persistently high housing costs and an uneven labour market recovery, continue to weigh on London's economic potential. Rising rents and elevated mortgage rates are eroding disposable incomes, limiting consumer spending and impacting long-term affordability. Furthermore, the full impact of elevated interest rates and global economic headwinds, such as slower global growth and geopolitical tensions, remain a significant risk.

The global economic environment adds further complexity to London's outlook. Supply chain risks, particularly those stemming from the war in Ukraine, and ongoing shifts in global trade patterns present challenges for businesses. At the same time, geopolitical uncertainties, including protectionist policies in key trading partners and energy price volatility, could have far-reaching implications for the capital's economic performance.

On the upside, London's position as a global hub continues to attract investment, talent, and innovation. The recovery in migration and the influx of skilled workers and students are enhancing the city's labour supply and supporting its growth potential. Additionally, improvements in inflation and the anticipated gradual easing of interest rates could provide much-needed relief to households and businesses, encouraging investment and spending.

In conclusion, London's economy is navigating a delicate balance between recovery and risk. While its key sectors and global standing offer a strong foundation for future growth, significant challenges and uncertainties remain. Considering all these elements, GLA Economics provides its medium-term scenario-based forecasts for London's economy in Chapter 5 of this document.

4. Review of independent forecasts

GLA Economics forecasts four economic indicators: workforce jobs, real GVA, private consumption (household expenditure) and household income in London. This chapter summarises the consensus view as of **5 December 2024** on these indicators[29], drawing on forecasts from outside (independent) organisations[30]. Chapter 5 then provides a summary of GLA Economics' own projections.

All the external forecasts were produced over the period July to November. Both annual growth rates and 'standardised' absolute levels are reported. All money-valued data is in real terms (constant 2019 prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling using ONS data[31]. The source of historical data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for the absolute levels. Beyond the headline, both the external consensus and GLA Economics deliver forecasts for employment and output growth in six broad sectors[32]:

- Manufacturing
- Construction
- Transport and storage
- Distribution[33], accommodation and food services
- Finance and business services[34]
- Other (public & private) services[35].

[29] The consensus forecast for GVA and employment is based on the latest available forecast from the Centre for Economics and Business Research, Experian Economics, Oxford Economics and S&P Global.

[30] S&P Global does not provide household expenditure forecasts.

[31] The main underlying ONS sources for output are the Quarterly country and regional GDP series and the Regional gross value added (balanced) by industry: all ITL regions series, and the main underlying ONS source for employment is Workforce jobs by region and industry.

[32] Since our Spring 2012 forecast, GLA Economics has been using the 2007 Standard Industrial Classification (SIC 2007). For more information see Appendix A of 'London's Economic Outlook: Spring 2012', GLA Economics, June 2012.

[33] Distribution is made from the summation of Wholesale and Retail.

[34] Business services is made from the summation of Information and Communication, Professional, Scientific and technical services, Real estate, and Administrative and support service activities.

[35] This is the sum of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services. While this set of sectors neglects primary industry and utilities, these made up 1% of London's 2022 output.

Output

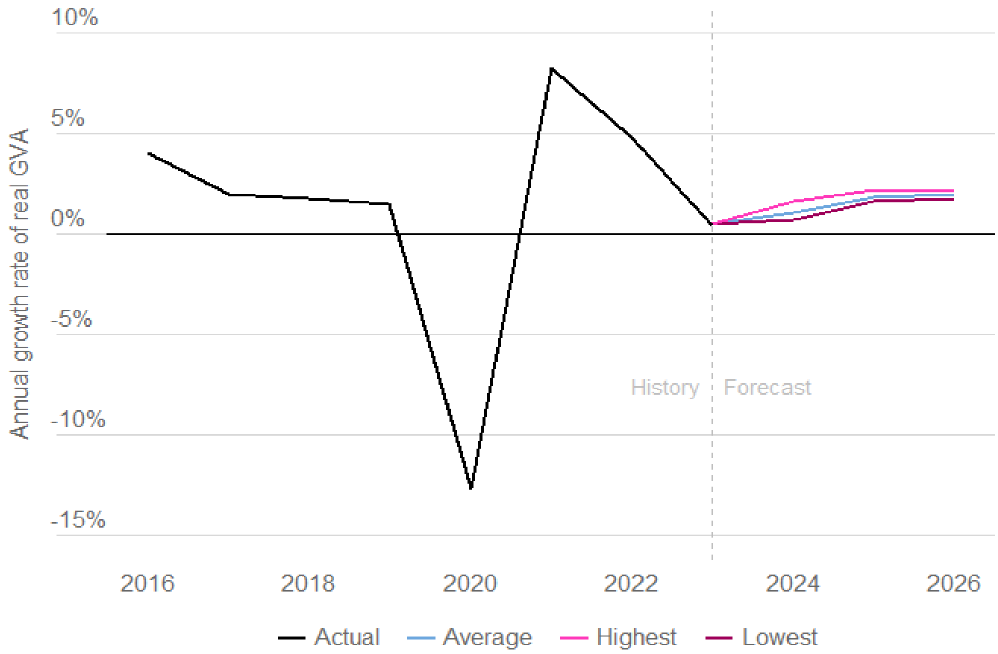
(London GVA, constant prices (base year 2019), £ billion)

The consensus (mean average) forecast puts real output growth at 1.1% in 2024, followed by 1.9% in 2025 and 2.0% in 2026.

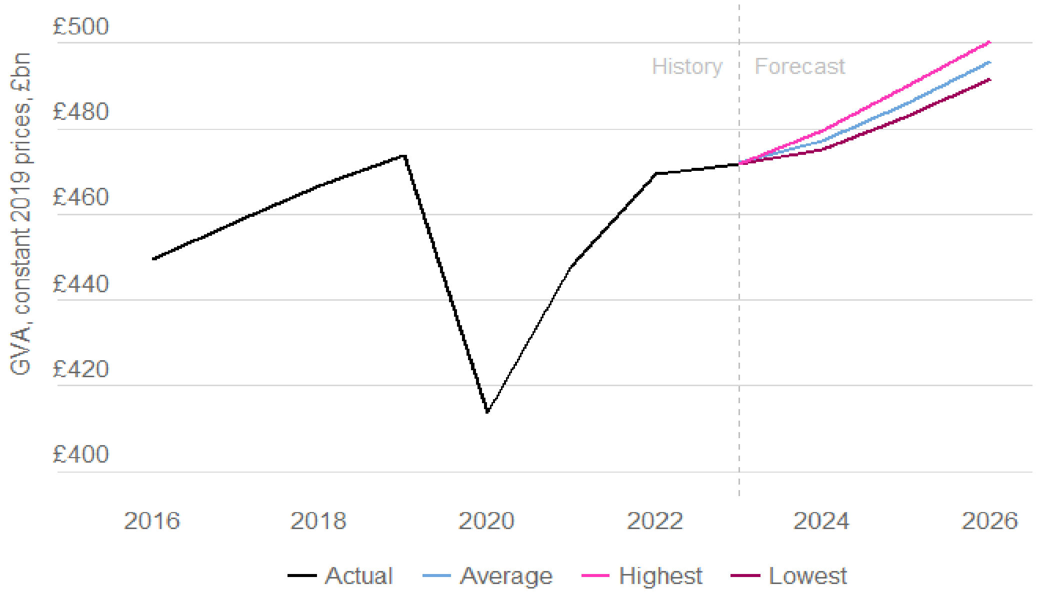
The consensus forecast indicates that London's economy is performing better than expected in 2024, and its economic growth is recovering. The July 2024 LEO consensus was for growth of 0.5% in 2024, 1.8% in 2025 and 2.0% in 2026.

The range of estimates has narrowed compared to the July forecast. The widest range of estimates for growth comes in 2024, with a difference of 0.9 percentage points (ppt) between the highest and lowest output growth estimates. The highest-growth profile projects London's economy to be 1.0% larger than the consensus path by 2026. Conversely, the lowest-growth profile projects London's economy to be 0.8% smaller than the consensus path by 2026. The levels of output in 2026 under the highest- and lowest-growth profiles differ by around 1.8%.

Annual growth



Level (constant year 2019, £ billion)



Annual growth (%)			
	2024	**2025**	**2026**
Average	1.1	1.9	2.0
Lowest	0.7	1.6	1.8
Highest	1.7	2.2	2.1

Level (constant 2019 prices, £ billion)			
	2024	**2025**	**2026**
Average	477.1	485.9	495.6
Lowest	475.1	482.9	491.6
Highest	479.5	490.1	500.5

History: Annual growth (%)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
4.3	1.2	4.1	2.0	1.8	1.5	-12.6	8.2	4.8	0.5

History: Level (constant 2019 prices, £ billion)[36]

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
425.4	431.3	449.2	457.9	466.6	473.7	413.8	447.9	469.5	471.7

[36] The historical data from 2014 to 2022 are provided by the ONS, while the 2023 figure is based on GLAE's nowcast.

Employment

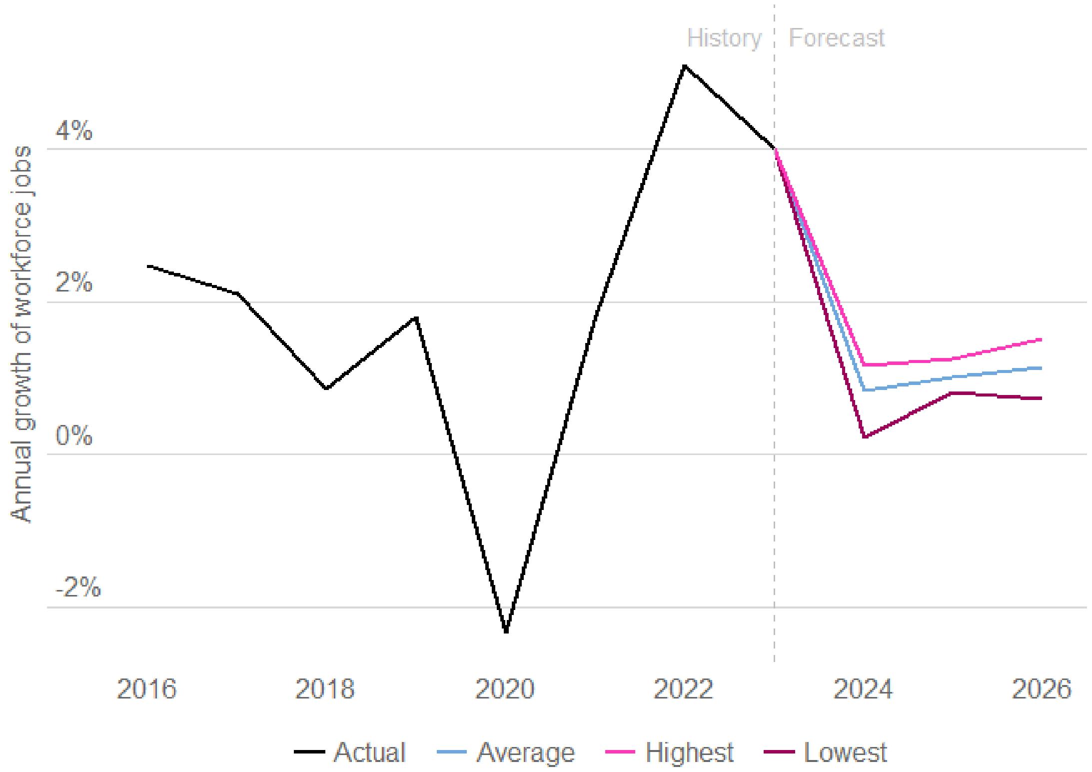
(London workforce jobs)

The consensus forecast for workforce jobs anticipates growth of 0.8% in 2024, 1.0% in 2025 and 1.2% in 2026.

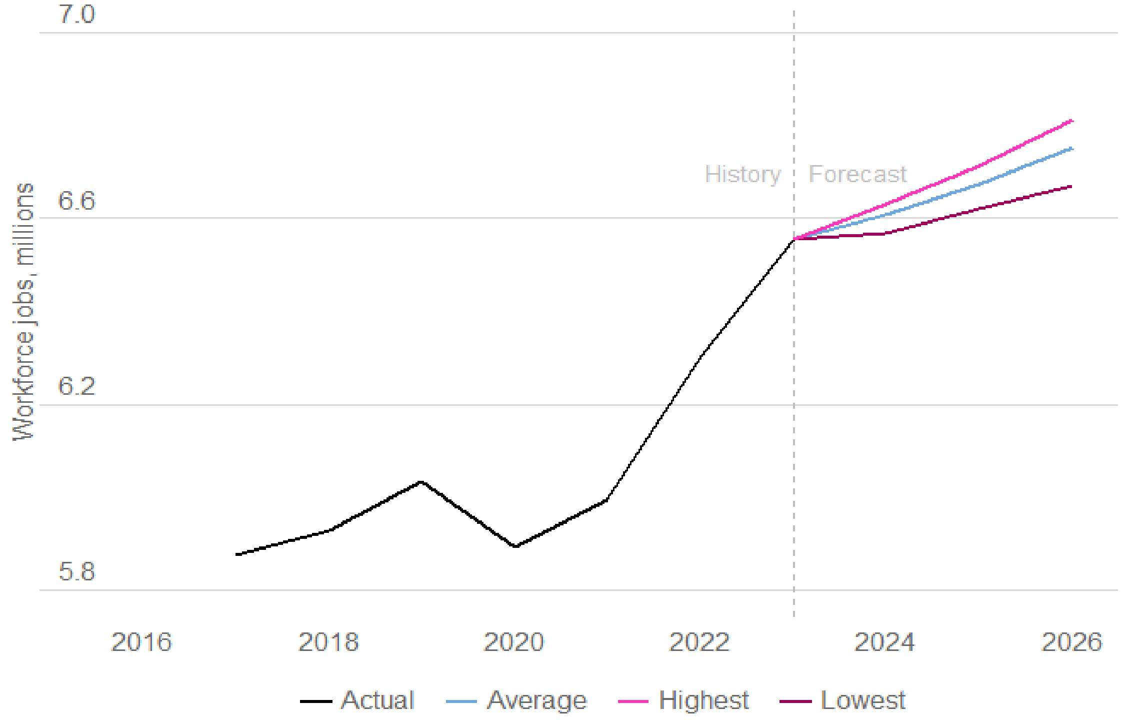
Compared to July this year, the consensus forecast represents a significant improvement in 2024. The previous consensus forecast saw growth of 0.4% in 2024. However, for 2025 and 2026, the current consensus anticipates slower growth compared to the July forecast, which predicted growth rates of 1.4% for both years.

The widest range of growth projections is seen in 2024, with a 0.9ppt difference between the highest and lowest forecasts. The range narrows to 0.6ppt in 2025, before widening again to 0.8ppt in 2026. By 2026, the lowest-growth profile would see employment 1.2% below the consensus level, while the highest-growth profile would leave employment 0.9% above the consensus. This creates a 2.2% gap in total jobs between the highest- and lowest-growth projections by 2026.

Annual growth



Level (millions of workforce jobs)



Annual growth (%)			
	2024	**2025**	**2026**
Average	0.8	1.0	1.2
Lowest	0.2	0.8	0.7
Highest	1.2	1.2	1.5

Level (constant 2019 prices, £ billion)			
	2024	**2025**	**2026**
Average	6.6	6.7	6.8
Lowest	6.6	6.6	6.7
Highest	6.6	6.7	6.8

History: Annual growth (%)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
4.3	2.0	2.5	2.1	0.9	1.8	-2.3	1.7	5.1	4.0

History: Level (millions of persons)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
5.5	5.6	5.8	5.9	5.9	6.0	5.9	6.0	6.3	6.6

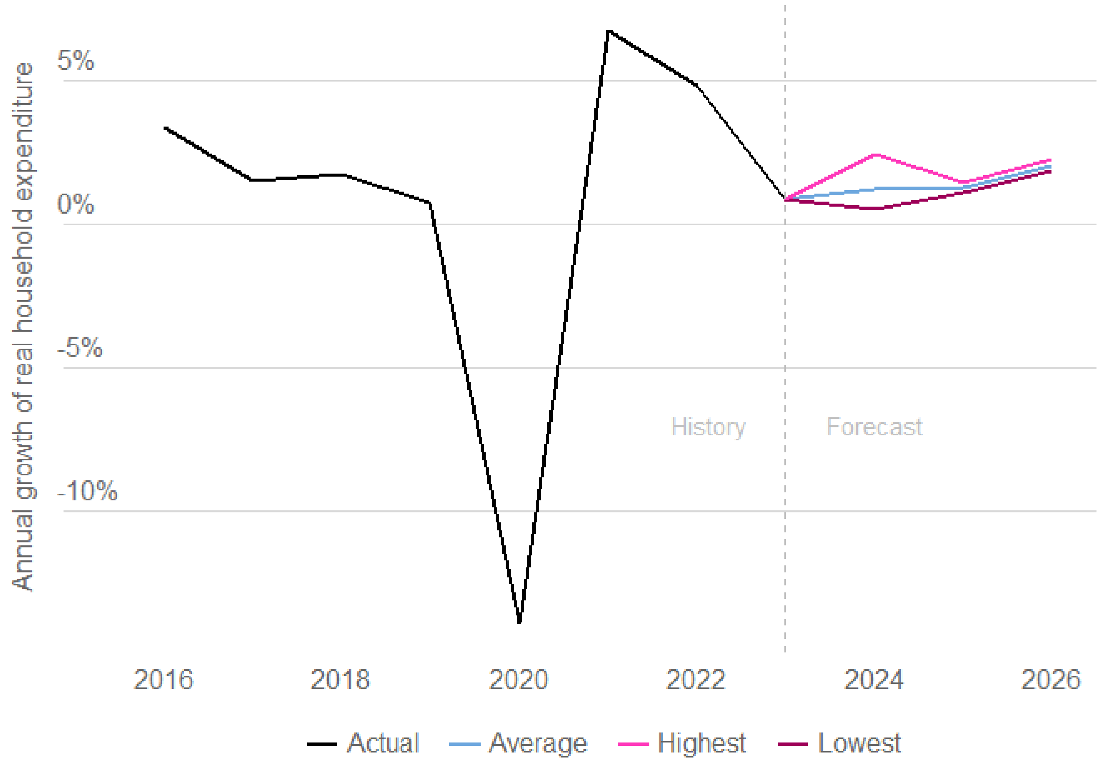
Household expenditure

(Constant prices (base year 2019), £ billion)

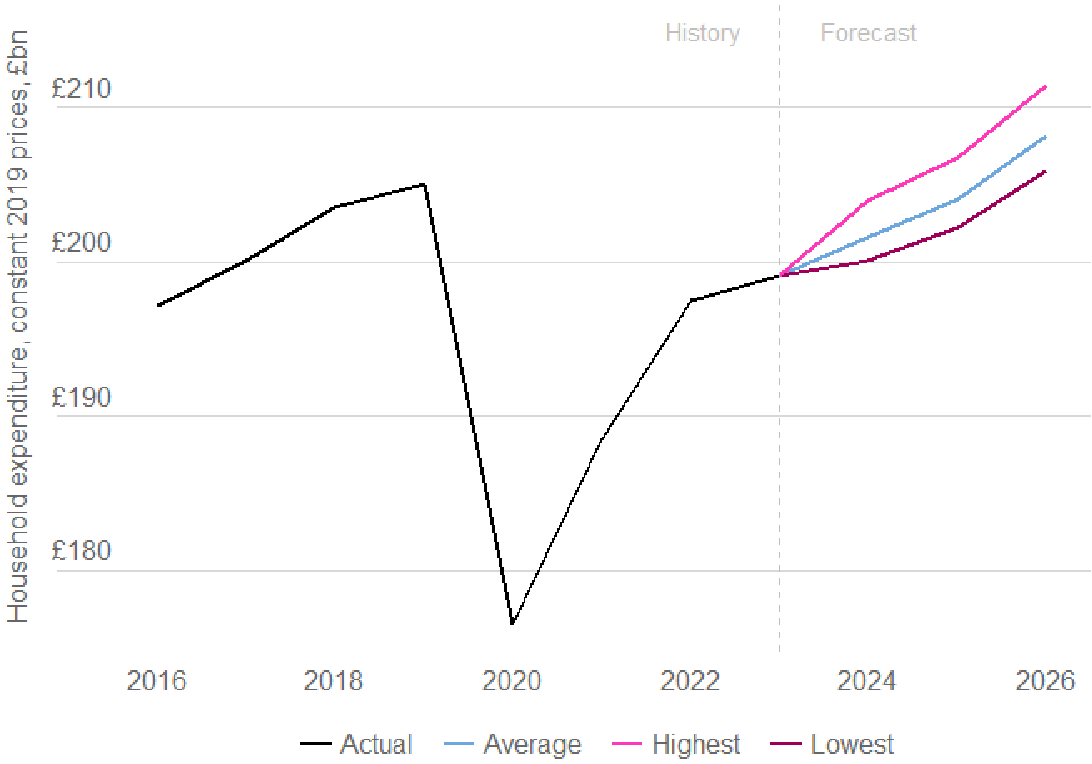
The consensus forecast for consumer spending anticipates growth of 1.2% in both 2024 and 2025, before recovering to 2.0% in 2026.

This is weaker than the July consensus, which projected higher growth of 1.4% in 2024 and a stronger recovery to 2.5% in 2025 and 2026. The downward revision reflects a more cautious outlook on household spending.

Annual growth



Level (constant 2019 prices, £ billion)



Annual growth (%)			
	2024	**2025**	**2026**
Average	1.2	1.2	2.0
Lowest	0.5	1.1	1.8
Highest	2.4	1.4	2.2

Level (constant 2019 prices, £ billion)			
	2024	**2025**	**2026**
Average	201.5	204.1	208.2
Lowest	200.1	202.2	205.9
Highest	203.9	206.8	211.5

History: Annual growth (%)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
3.1	2.6	3.4	1.5	1.7	0.7	-13.9	6.7	4.8	0.8

History: Level (constant 2019 prices, £ billion)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
185.8	190.7	197.2	200.1	203.6	205.1	176.5	188.4	197.5	199.1

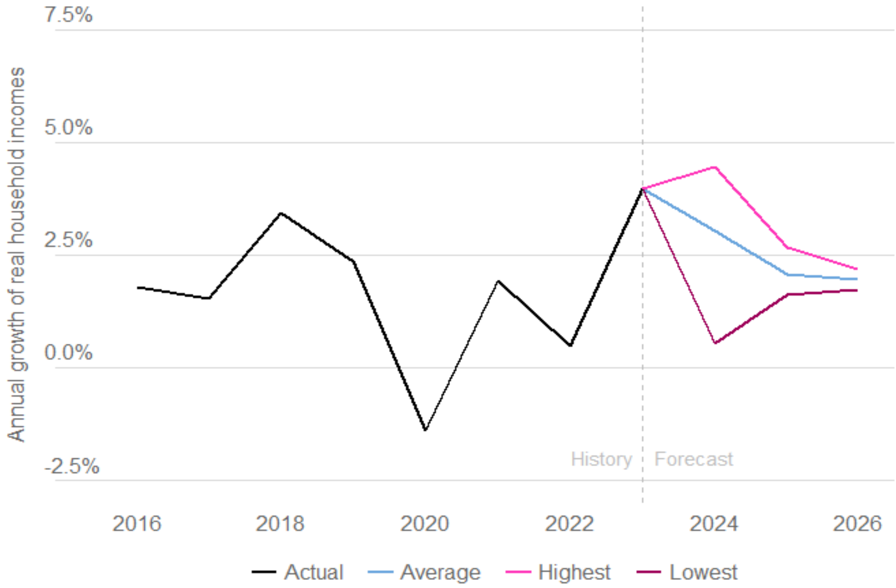
Household income

(London real disposable household income, constant prices (base year 2019), £ billion)

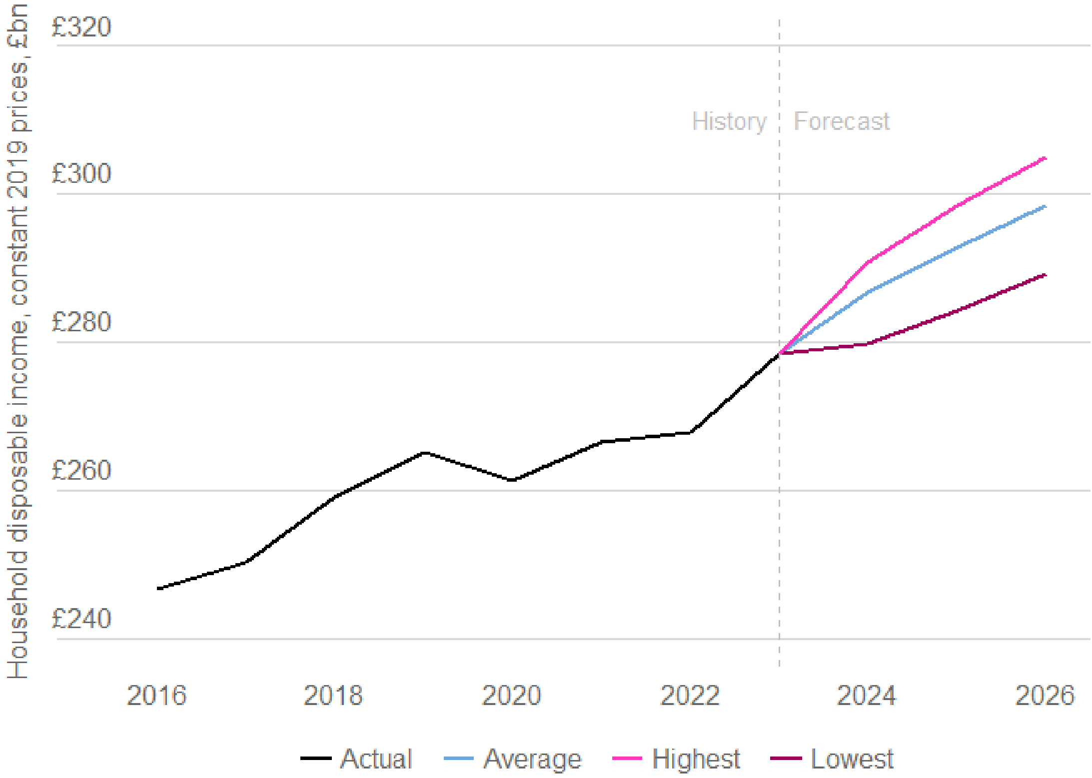
The consensus forecast for household income is for growth of 3.0 % in 2024, followed by 2.1% in 2025 and 2.0% in 2026.

The consensus forecast has been downgraded from the forecast of 3.2% in 2024, followed by 2.6% in 2025 and 2.0% in 2026.

Annual growth



Level (constant 2019 prices, £ billion)



Annual growth (%)			
	2024	**2025**	**2026**
Average	3.0	2.1	2.0
Lowest	0.5	1.6	1.7
Highest	4.5	2.7	2.2

Level (constant 2019 prices, £ billion)			
	2024	**2025**	**2026**
Average	286.8	292.7	298.5
Lowest	279.8	284.3	289.3
Highest	290.7	298.5	305.0

History: Annual growth (%)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
4.6	7.7	1.8	1.5	3.4	2.4	-1.4	1.9	0.5	4.0

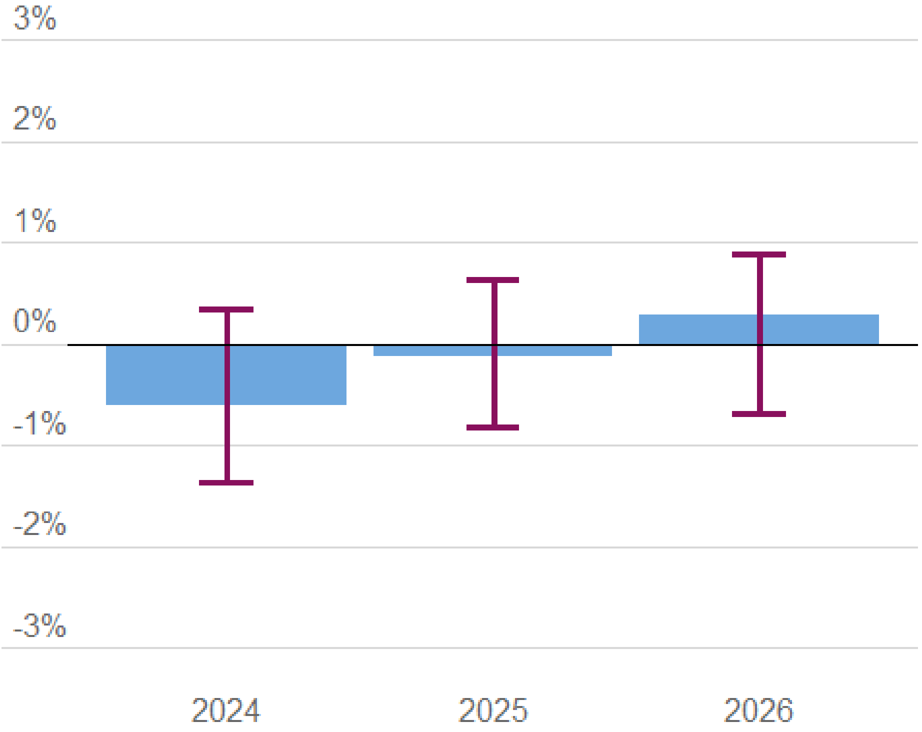
History: Level (constant 2019 prices, £ billion)

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
224.9	242.3	246.6	250.4	259.0	265.1	261.4	266.4	267.7	278.3

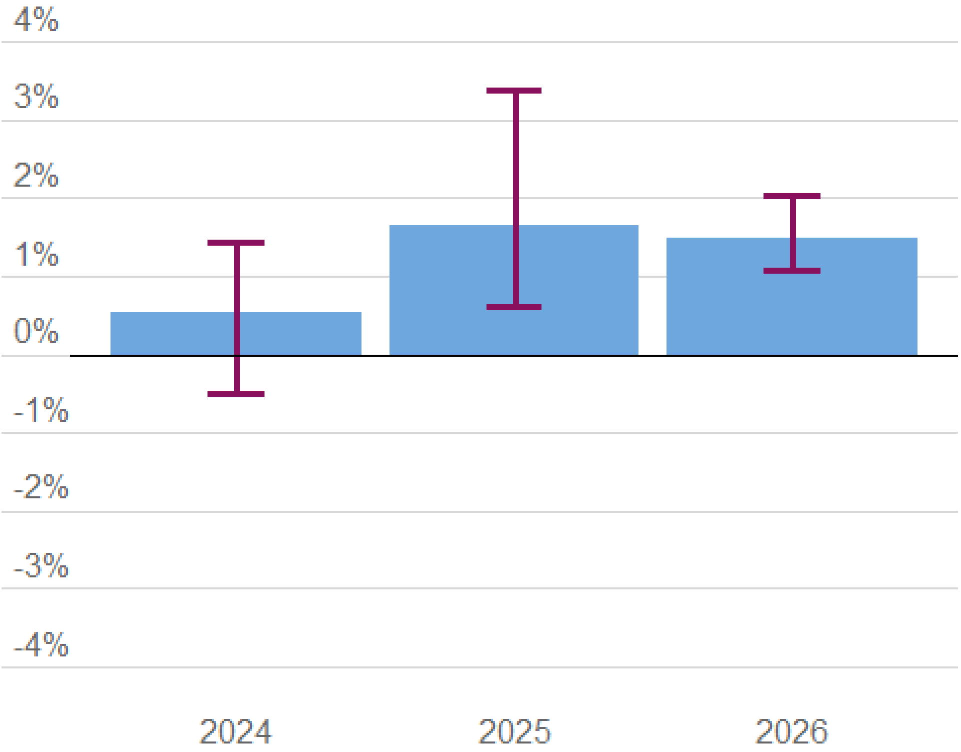
Output growth by sector

The consensus forecast sees most of London's services sectors maintaining growth across the next three years. However, the manufacturing sector is expected to experience a contraction this year and next, while the construction sector is anticipated to shrink in 2024 but rebound to growth in 2025.

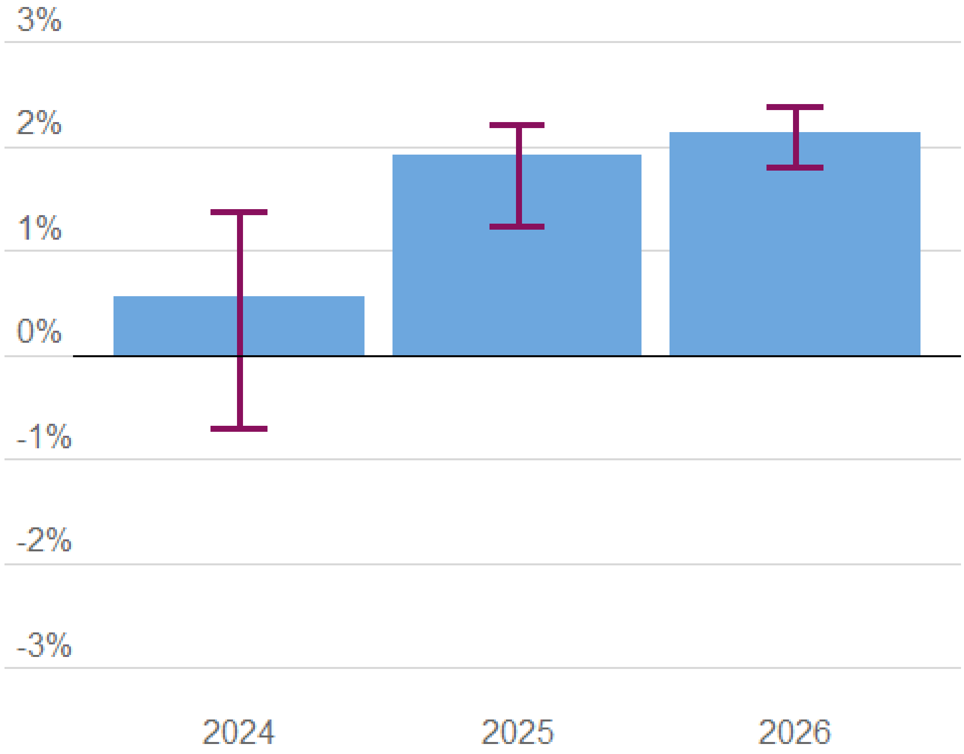
Manufacturing



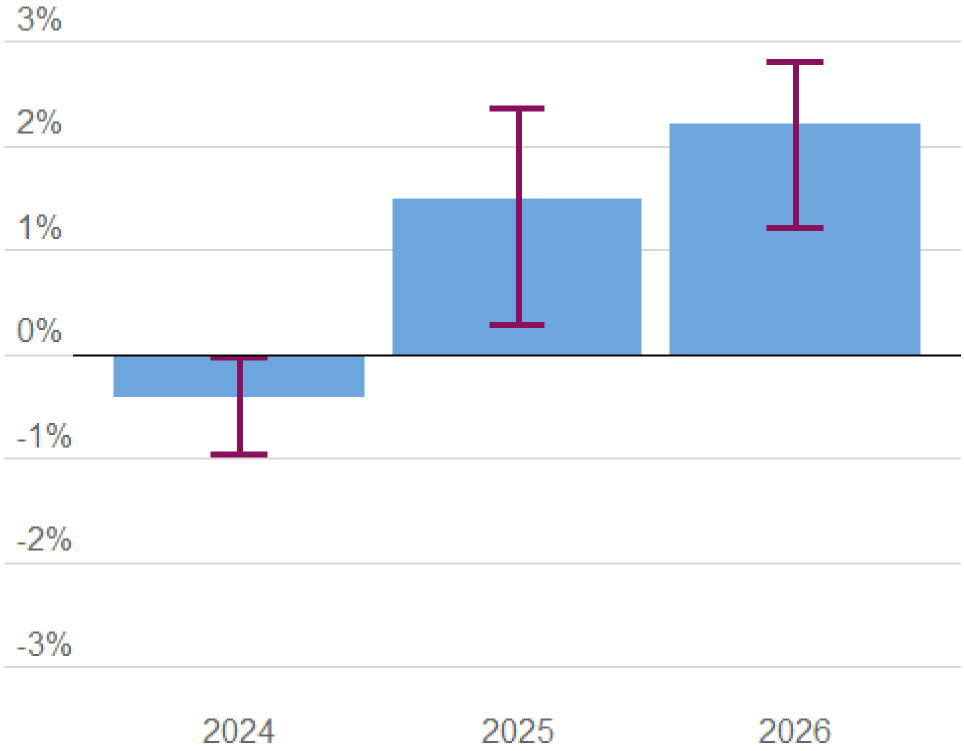
Distribution, accommodation and food service activities



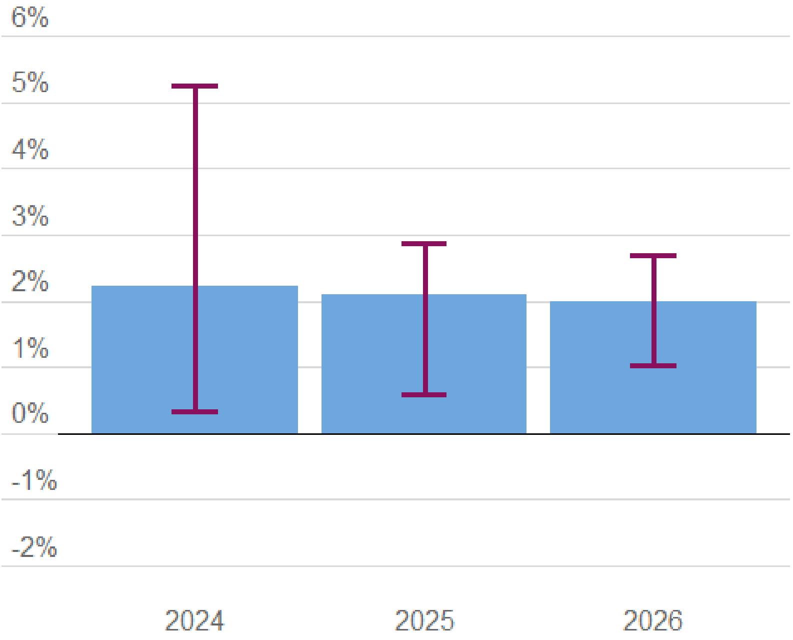
Finance and business



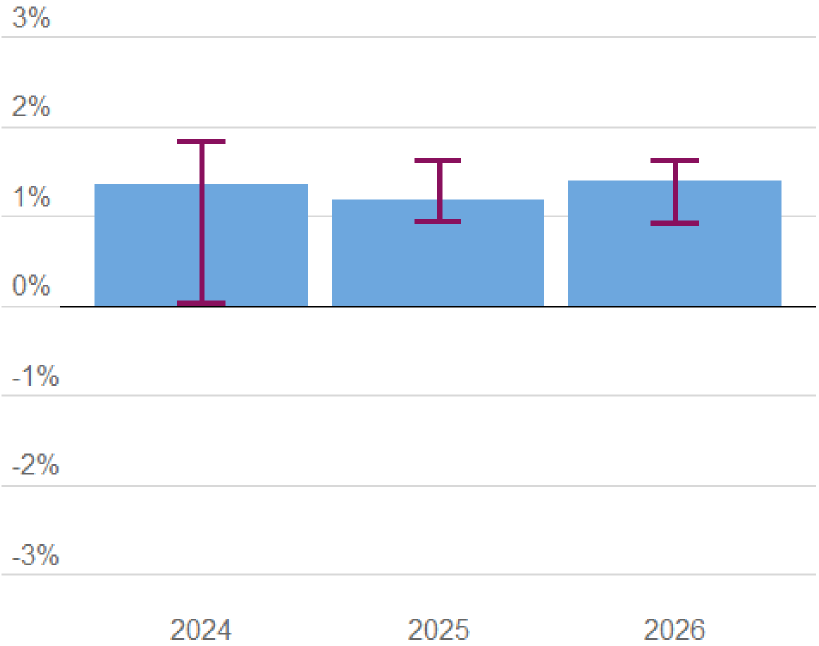
Construction



Transport and storage



Other services (public and private)

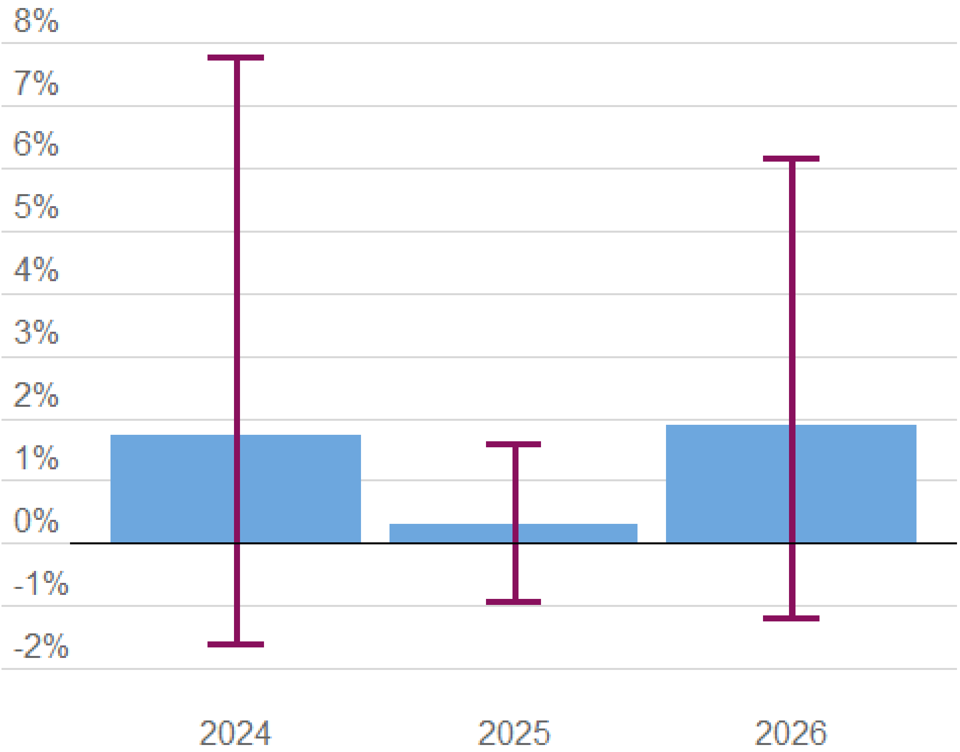


		2024	2025	2026			2024	2025	2026
Manufacturing	Average	-0.6	-0.1	0.3	**Construction**	Average	-0.4	1.5	2.2
	Lowest	-1.4	-0.8	-0.7		Lowest	-1.0	0.3	1.2
	Highest	0.3	0.6	0.9		Highest	0.0	2.4	2.8
Distribution, accommodation and food	Average	0.5	1.6	1.5	**Transport and storage**	Average	2.2	2.1	2.0
	Lowest	-0.5	0.6	1.1		Lowest	0.3	0.6	1.0
	Highest	1.4	3.4	2.0		Highest	5.3	2.9	2.7
Finance and business	Average	0.6	1.9	2.1	**Other services (public and private)**	Average	1.3	1.2	1.4
	Lowest	-0.7	1.2	1.8		Lowest	0.0	0.9	0.9
	Highest	1.4	2.2	2.4		Highest	1.8	1.6	1.6

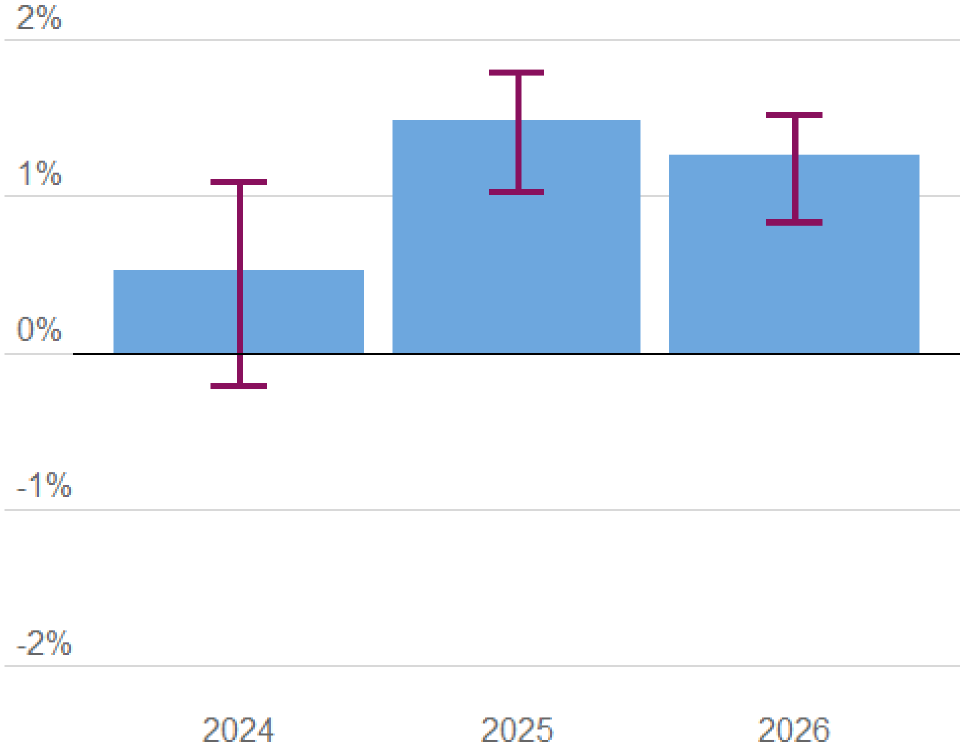
Employment growth by sector

The profile of sectoral job growth is positive, with all services sectors anticipated to expand over the next three years. Employment in the construction sector is projected to decline slightly in 2024 before recovering in 2025 and 2026. The manufacturing sector shows the widest forecast range among all sectors, particularly in 2024, with expectations ranging from a 7.8% growth to a 1.6% contraction, reflecting significant uncertainty in the sector's performance.

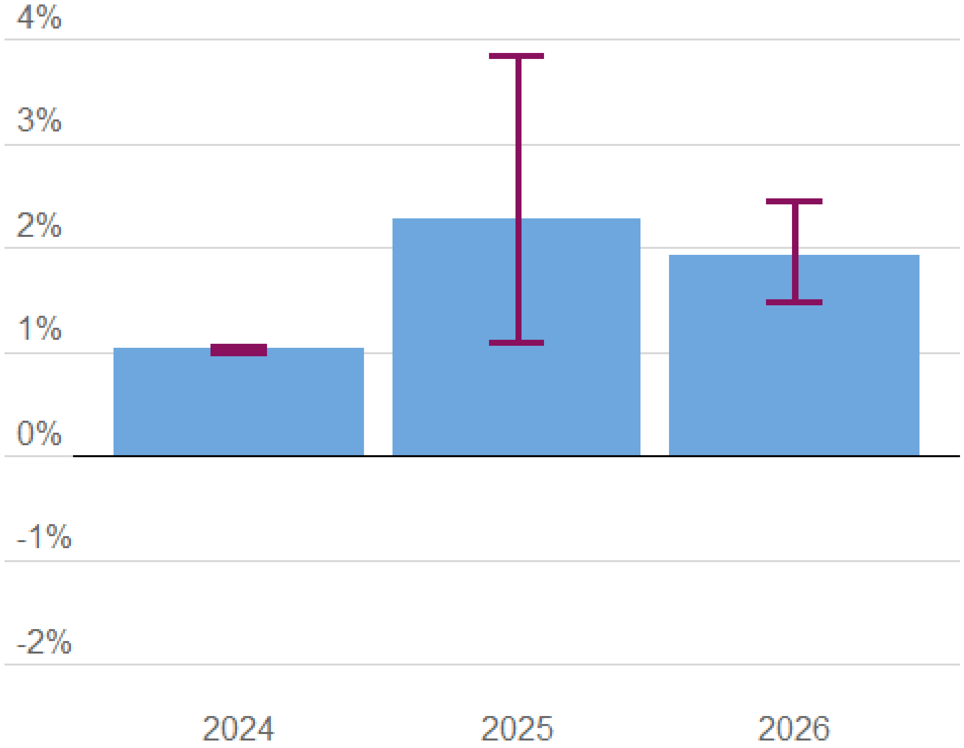
Manufacturing



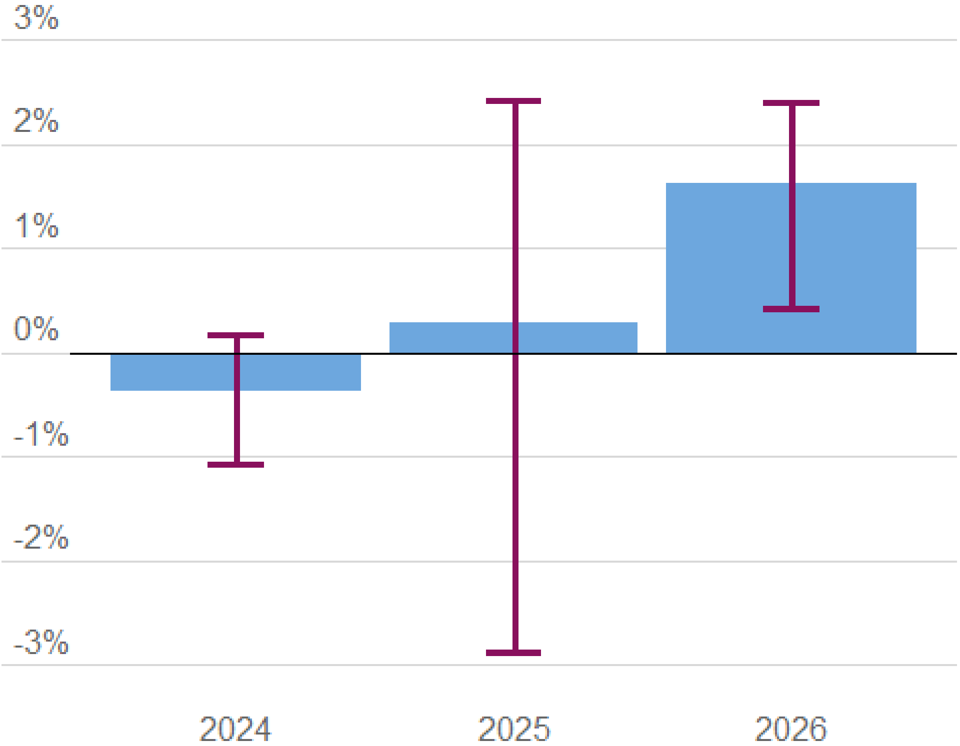
Distribution, accommodation and food service activities



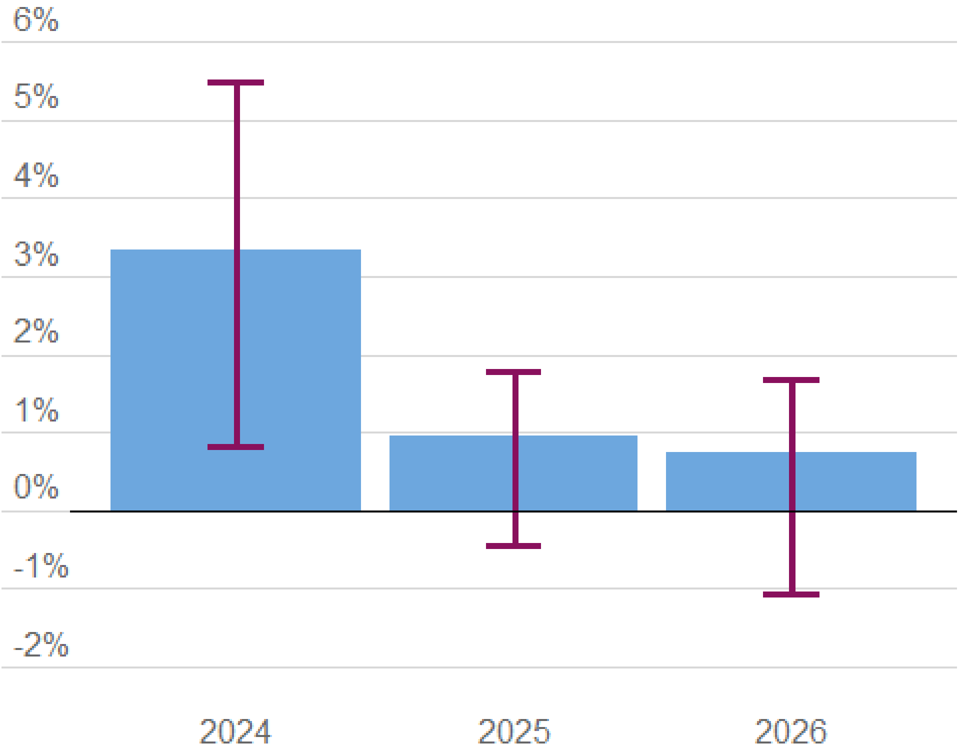
Finance and business



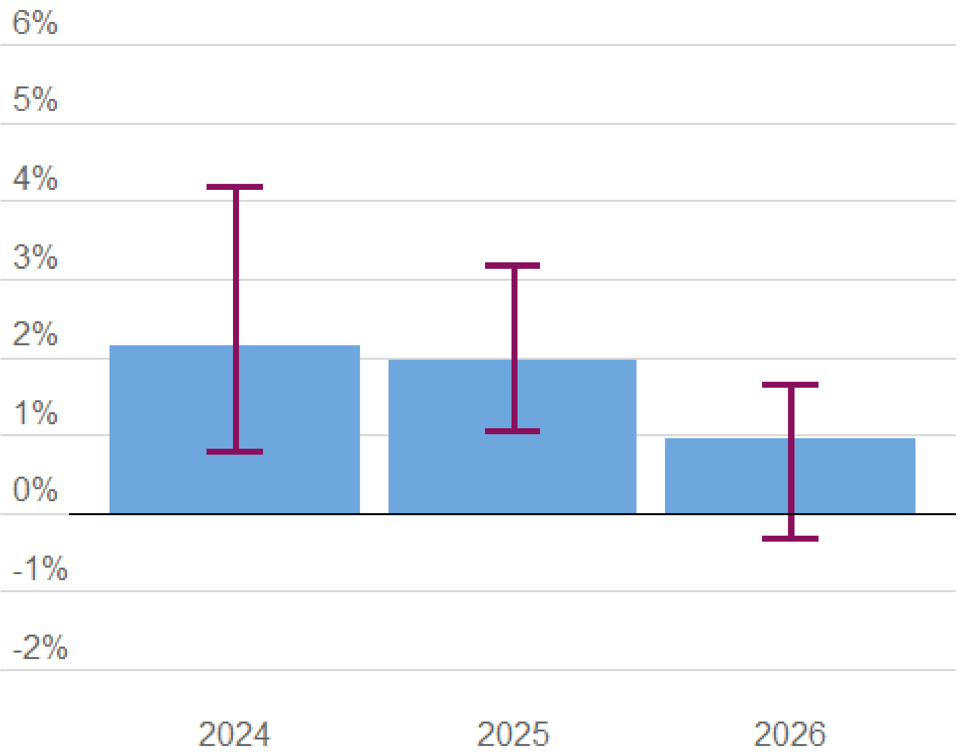
Construction



Transport and storage



Other services (public and private)



		2024	2025	2026			2024	2025	2026
Manufacturing	Average	1.7	0.3	1.9	**Construction**	Average	-0.4	0.3	1.6
	Lowest	-1.6	-0.9	-1.2		Lowest	-1.1	-2.9	0.4
	Highest	7.8	1.6	6.1		Highest	0.2	2.4	2.4
Distribution, accommodation and food	Average	0.5	1.5	1.3	**Transport and storage**	Average	3.3	0.9	0.8
	Lowest	-0.2	1.0	0.8		Lowest	0.8	-0.4	-1.1
	Highest	1.1	1.8	1.5		Highest	5.5	1.8	1.7
Finance and business	Average	1.0	2.3	1.9	**Other services (public and private)**	Average	2.1	2.0	0.9
	Lowest	1.0	1.1	1.5		Lowest	0.8	1.1	-0.3
	Highest	1.0	3.8	2.5		Highest	4.2	3.2	1.7

5. The GLA Economics reference forecast

For business planning purposes (for example, the likely course of revenue), GLA Economics produces estimates of job numbers and output at a range of points in time. The medium-term planning projections (this forecast) provide those estimates.

This forecast differs from the GLA's long-term employment projections[37], which are trend-based. Trend projections, by definition, do not incorporate cyclical variations and the actual course of output and employment will vary around this trend. These long-term projections are essential for planning to provide capacity (such as office space, housing and transport). They also allow planners to accommodate the needs of the economy throughout the cycle, including at its peak. However, business planning also requires estimates of actual economic aggregates in the medium term, including cyclical paths.

As time progresses and more data becomes available, it is possible to identify turning points in the data; whether underlying trends are continuing, or new trends are being established.

The source for the historical data in the following tables and charts is GLA Economics modelling using ONS data.

This analysis includes a measure of uncertainty around the central scenario using alternative scenarios developed by GLA Economics. The upside scenario envisions a steady economic recovery driven by London's relatively affluent consumers, benefiting from stabilising economic conditions and improved confidence. With inflation now under control and below 2%, the cost-of-living pressures have eased significantly. Stabilised interest rates and a more predictable economic environment could encourage household spending and business investment. Additionally, London's finance and tech sectors, combined with rising international tourism and green infrastructure investments, are expected to create jobs and support sustainable growth.

The downside scenario, however, highlights ongoing risks to London's recovery. While interest rates are not historically high, they may still suppress some levels of borrowing and investment due to the recent economic adjustment. Productivity remains subdued, weighing on London's ability to achieve higher growth. Trade frictions with the EU and sluggish global trade continue to challenge export-driven industries, while global economic uncertainty and geopolitical tensions impact London's broader role as a centre for international business, innovation, and investment. In this scenario, subdued growth could potentially lead to deeper scarring effects on output and employment.

5.1 Results

London's economic output had been growing every year from 2010 to 2019 before the pandemic drove an unprecedented contraction in 2020. Though the latest data show that London experienced a more severe impact from the pandemic, London had the largest increase in real GVA in the UK in 2022, with a growth rate of 4.8%. Faced with high inflation and the cost-of-living crisis, the pace of recovery in London slowed substantially in 2023; GLAE nowcasts that the real GVA growth in London in 2023 was 0.5%.

With the recent significant easing in inflation pressures, our baseline central scenario, aligned with projections from the Office for Budget Responsibility (OBR), anticipates weak growth of 1.2% this year. This represents an improvement for 2024 compared to our July forecast, reflecting stronger-than-expected economic performance. Growth is expected to follow a steady upward trajectory in the medium term.

[37] GLA Economics (2022). 'London labour market projections 2022'.

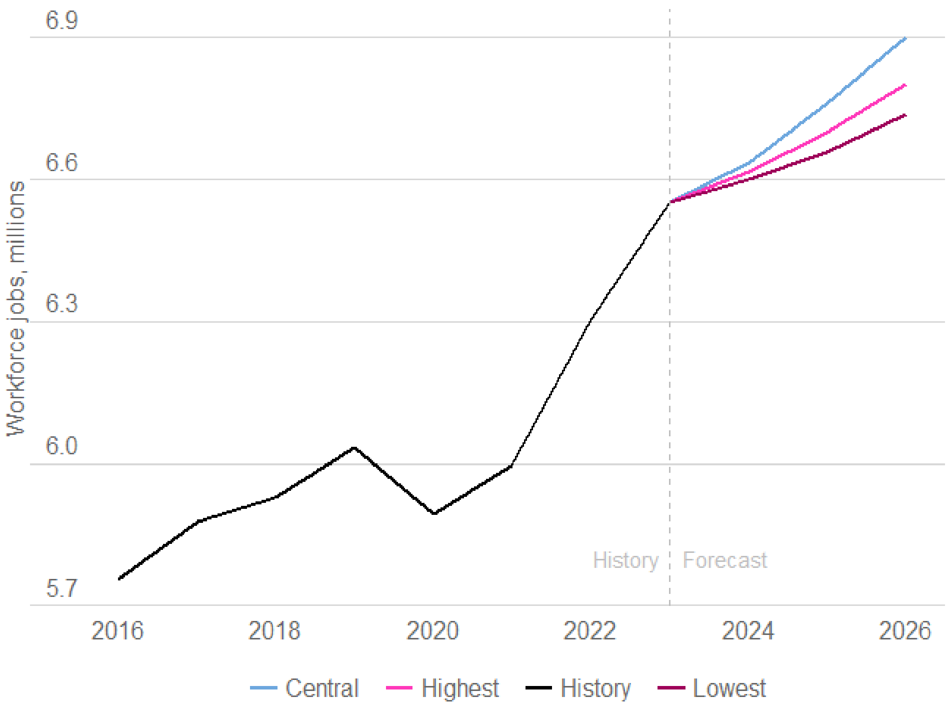
Moreover, London's economy has recently outperformed the wider UK, suggesting that any positive shocks to the national economy could result in an even more optimistic outlook for the capital. As a result, we forecast London's GVA growth rate to exceed 2% by 2026, outpacing the overall UK growth rate.

On the employment side, our forecast has improved for all three years due to strong performance in the labour markets. We expect the growth rates of workforce jobs to be 1.3% in 2024, 1.5% in 2025 and 1.6% in 2026.

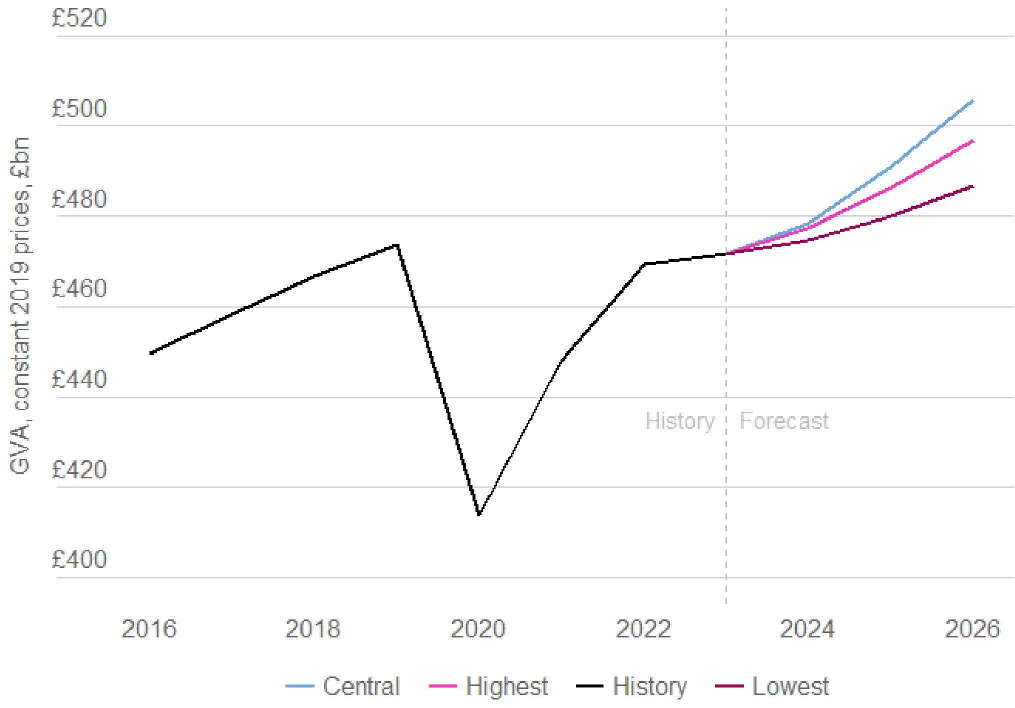
Our forecast for household spending in 2024 has been upgraded from 0.6% in the July LEO forecast to 0.9%, as the cost-of-living crisis has significantly eased. This adjustment reflects higher-than-expected real income growth at the UK level, driven by falling inflation and resilient wage growth. Consequently, our forecasts for household income have been revised upward for both 2024 and 2025. However, we anticipate a moderation in the growth rate in 2026 as the effects of post-pandemic adjustments and monetary tightening gradually settle.

Figure 5.1: GLA Economics' forecasts and scenarios for employment and output

Workforce jobs



Output



Source: GLA Economics estimates for historic data and GLA Economics calculations for forecast

Table 5.1: Central scenario-based forecast and historical growth rates

(Annual % change)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GVA	1.9	1.9	1.5	-12.6	8.2	4.8	0.5	1.2	1.9	2.2
Workforce jobs	2.1	0.9	1.8	-2.3	1.7	5.1	4.0	1.3	1.5	1.6
Household spending	1.5	1.7	0.7	-13.9	6.7	4.8	0.8	0.9	2.0	2.1
Household income	1.5	3.4	2.4	-1.4	1.9	0.5	4.0	2.7	3.1	2.0

Table 5.2: Scenario-based forecast and historical levels

(constant 2019 prices, £ billion except jobs)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
GVA	457.9	466.6	473.7	413.8	447.9	469.5	471.7	477.2	486.4	496.9
Workforce jobs (million)	5.9	5.9	6.0	5.9	6.0	6.3	6.6	6.6	6.7	6.8
Household spending	200.1	203.6	205.1	176.5	188.4	197.5	199.1	200.9	204.9	209.3
Household income	250.4	259.0	265.1	261.4	266.4	267.7	278.3	285.9	294.8	300.8

Output
(London GVA, constant prices (base year 2019), £ billion)

Our latest Nowcast estimates that London's real GVA grew 0.5% in 2023. Our forecast then expects moderate growth of 1.2% in 2024 rising to 1.9% in 2025 and 2.2% in 2026.

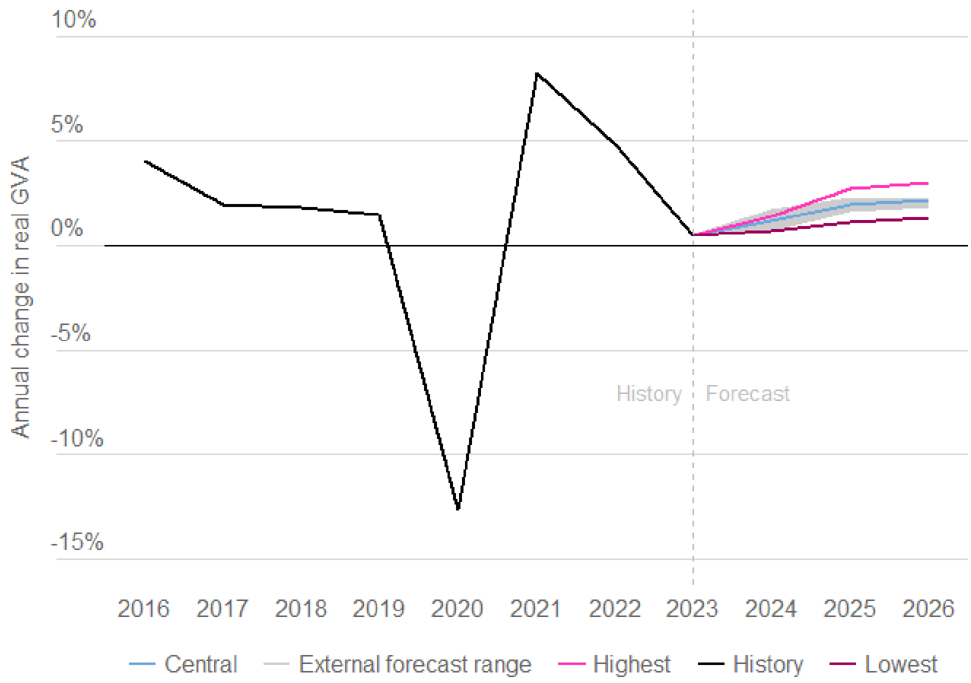
In 2024, Consumer Prices Index (CPI) inflation dropped faster than expected, reaching the Bank of England's 2% target in May. Concurrently, the UK economy demonstrated significant improvement in the first half of the year. Based on these trends, our baseline scenario (gradual economic recovery scenario) projects moderate growth of 1.2% for 2024, reflecting upward revisions from our July projections. Growth is expected to rise to 1.9% in 2025 and 2.2% in 2026 as interest rates stabilise, economic uncertainty diminishes, and the momentum of the service sectors continues to support recovery and expansion.

In our upside scenario (fast recovery scenario), economic conditions improve at a quicker pace, with growth reaching 1.4% in 2024, 2.7% in 2025, and 3.0% in 2026. This scenario envisions stronger consumer spending, driven by increased household confidence and the release of savings, alongside a more dynamic recovery in global trade and investment.

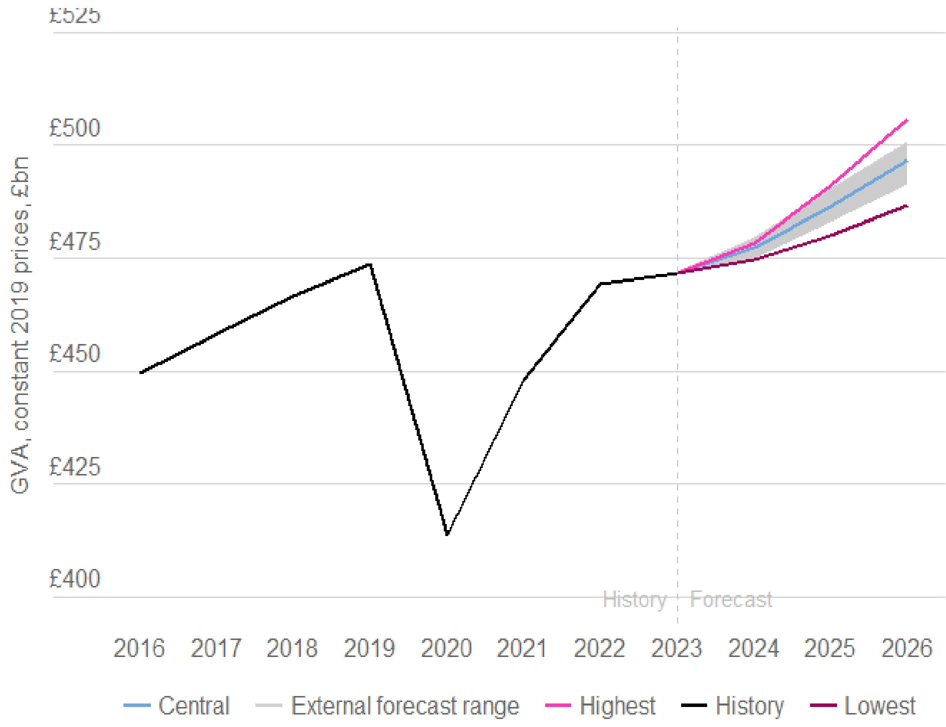
Conversely, the downside scenario (slow recovery scenario) reflects a more subdued economic rebound, with growth of 0.7% in 2024, 1.1% in 2025, and 1.4% in 2026. This outcome could result from prolonged geopolitical uncertainty, weaker-than-expected global demand, or slower gains in productivity, keeping growth well below historical averages.

Our baseline scenario remains cautiously optimistic, aligning with the average of external forecasters for medium-term growth. By 2026, projected output in our upside scenario is approximately 3.8% higher than in the downside scenario. This variance highlights the critical role of factors such as consumer spending momentum, global economic recovery, and productivity improvements in shaping the capital's economic trajectory.

Annual growth (%)



Level (constant 2019 prices, £ billion)



Growth (annual %)				
	2023	**2024**	**2025**	**2026**
Gradual economic recovery	0.5	1.2	1.9	2.2
Fast recovery		1.4	2.7	3.0
Slow recovery		0.7	1.1	1.4

Level (constant 2019 prices, £ billion)				
	2023	**2024**	**2025**	**2026**
Gradual economic recovery	471.7	477.2	486.4	496.9
Fast recovery		478.3	491.3	505.9
Slow recovery		474.8	480.1	486.6

(See Chapter 4 for tables of historical data)

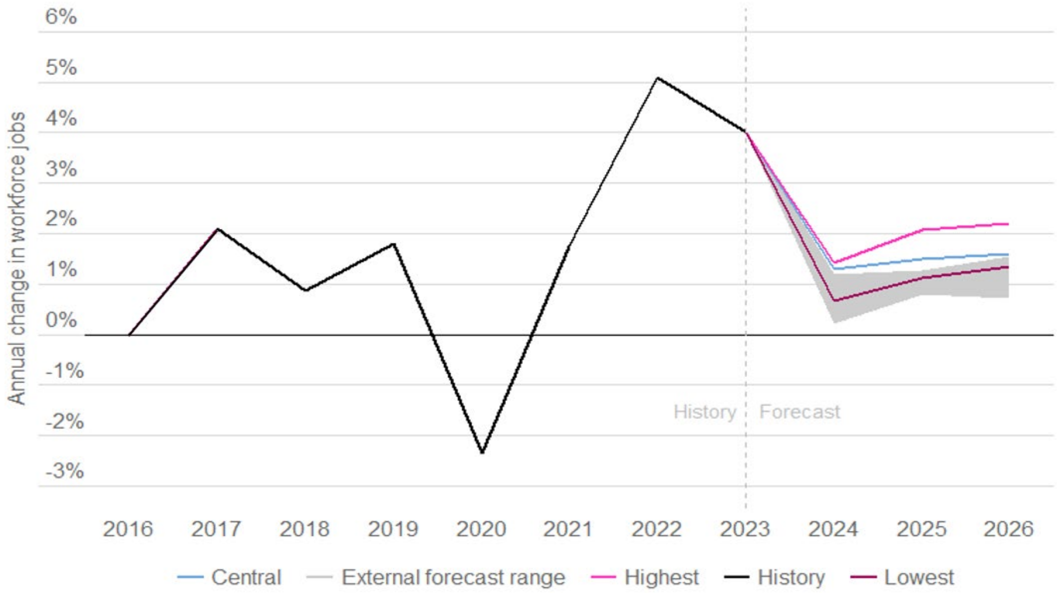
Employment
(London workforce jobs)

London's workforce jobs grew by 4.0% in 2023, reflecting a robust recovery from the pandemic and strong hiring across key sectors. Recently released data for the labour market in the first half of 2024 has shown that London's labour force participation rate remains resilient. We expect this momentum in the labour market to continue, with job growth projected at 1.3% in 2024, rising to 1.5% in 2025 and 1.6% in 2026 under our baseline Gradual Recovery Scenario. This outlook represents an upgrade from our July LEO forecast.

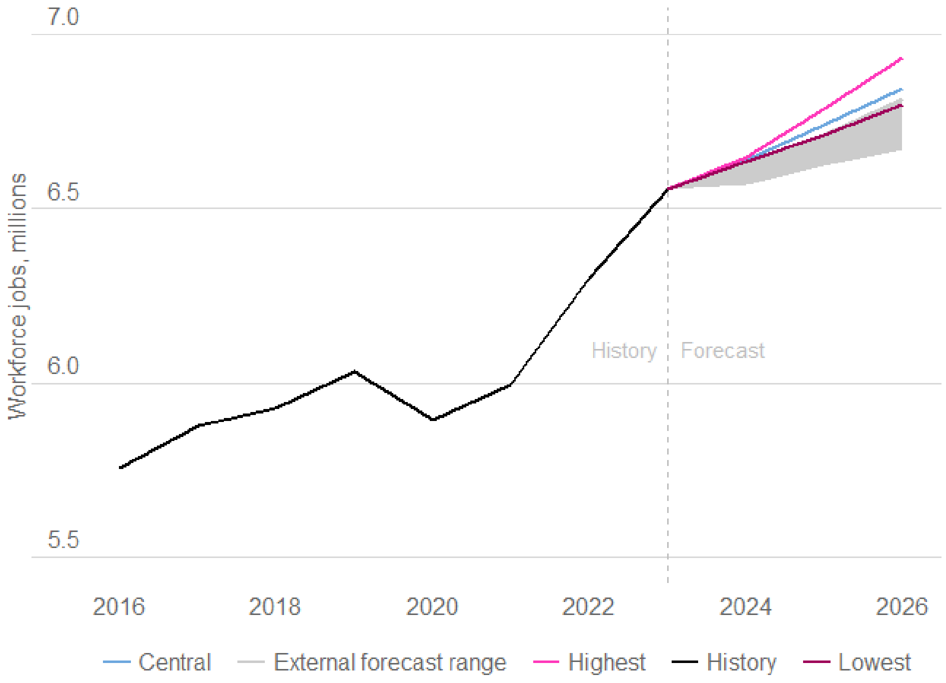
Our upside scenario envisions stronger labour market momentum, with job growth reaching 1.4% in 2024, accelerating to 2.1% in 2025 and 2.2% in 2026. Meanwhile, the downside scenario projects more modest growth rates of 0.7% in 2024, 1.1% in 2025, and 1.4% in 2026, reflecting prolonged constraints from economic uncertainty and slower productivity improvements.

More recent data indicates a stronger than expected labour market which is included in our estimation; our forecast is more optimistic than external projections. Given that a resilient labour market likely underpins recent improvements in wider economic data, we see the risks to job growth as reasonably balanced, with a slight tilt towards the upside.

Annual growth (%)



Level (millions of workforce jobs)



Growth (annual %)				
	2023	**2024**	**2025**	**2026**
Gradual economic recovery	4.0	1.3	1.5	1.6
Fast recovery		1.4	2.1	2.2
Slow recovery		0.7	1.1	1.4

Level (millions of workforce jobs)				
	2023	**2024**	**2025**	**2026**
Gradual economic recovery	6.6	6.6	6.7	6.8
Fast recovery		6.6	6.8	6.9
Slow recovery		6.6	6.7	6.8

(See Chapter 4 for tables of historical data)

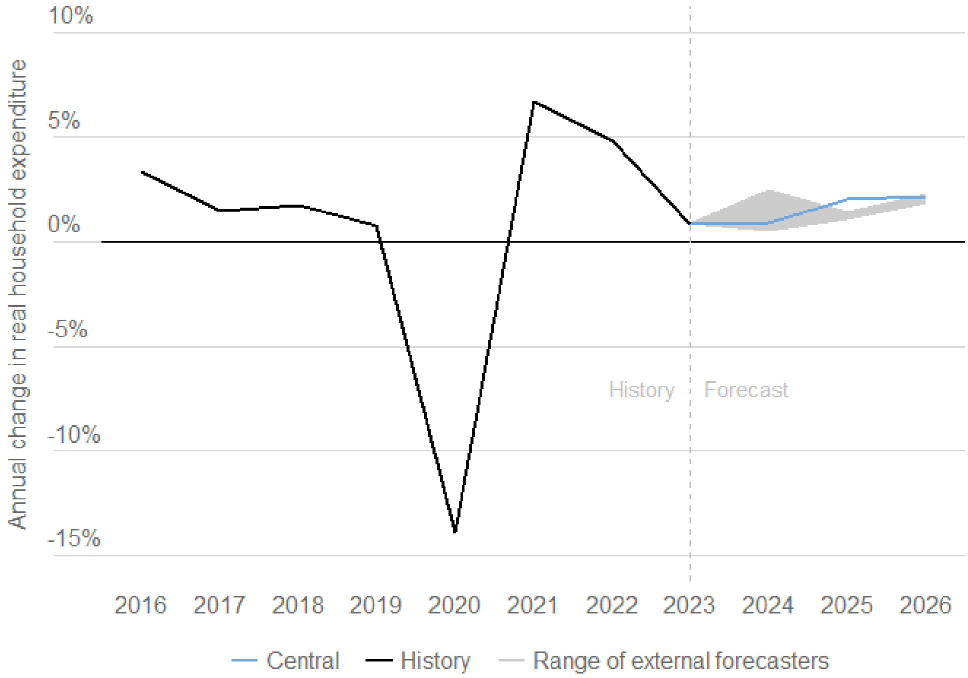
Household expenditure

(London household spending, constant prices (base year 2019), £ billion)

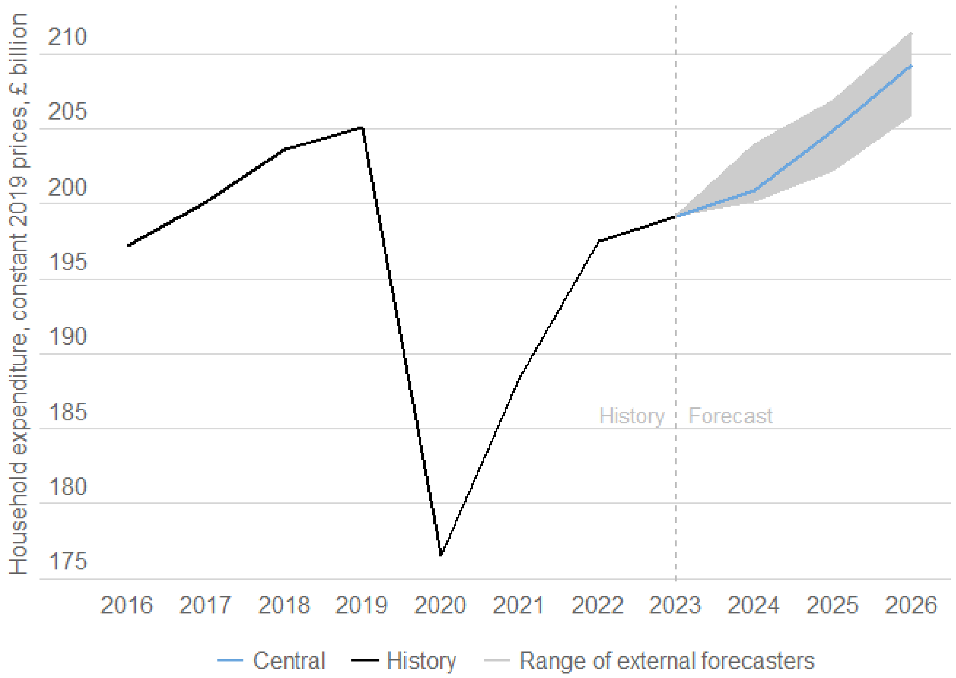
GLA Economics forecasts consumer spending to grow by 0.9% in 2024, before recovering to growth of 2.0% in 2025 and 2.1% in 2026.

This represents an upgrade from our July LEO forecast, which projected growth of 0.6% for 2024 driven by inflationary pressures, stabilising interest rates, and improved consumer and business confidence, and similar rates for the following years, with estimates of 2.1% in 2025 and 2.0% in 2026.

Annual growth (%)



Level (constant year 2019, £ billion)



(See Chapter 4 for tables of historical data)

Household income

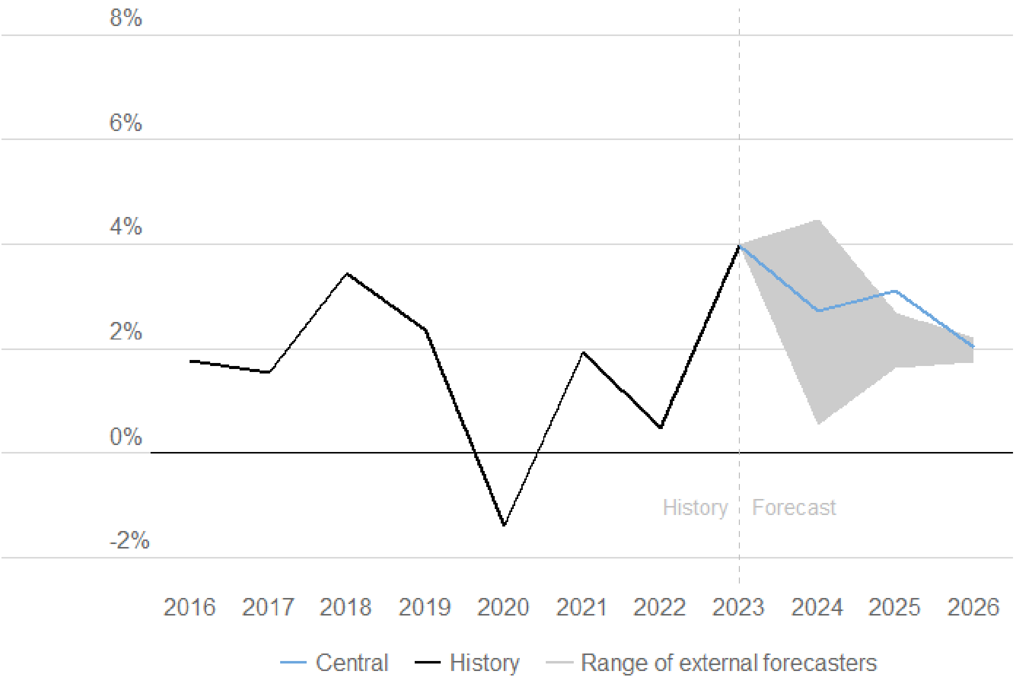
(London real disposable household income, constant prices (base year 2019), £ billion)

GLA Economics forecasts real disposable income to grow by 2.7% in 2024, followed by a further recovery to 3.1% in 2025 and a decrease to 2.0% in 2026. This profile aligns with external consensus for 2024, slightly exceeds it in 2025, and converges by 2026.

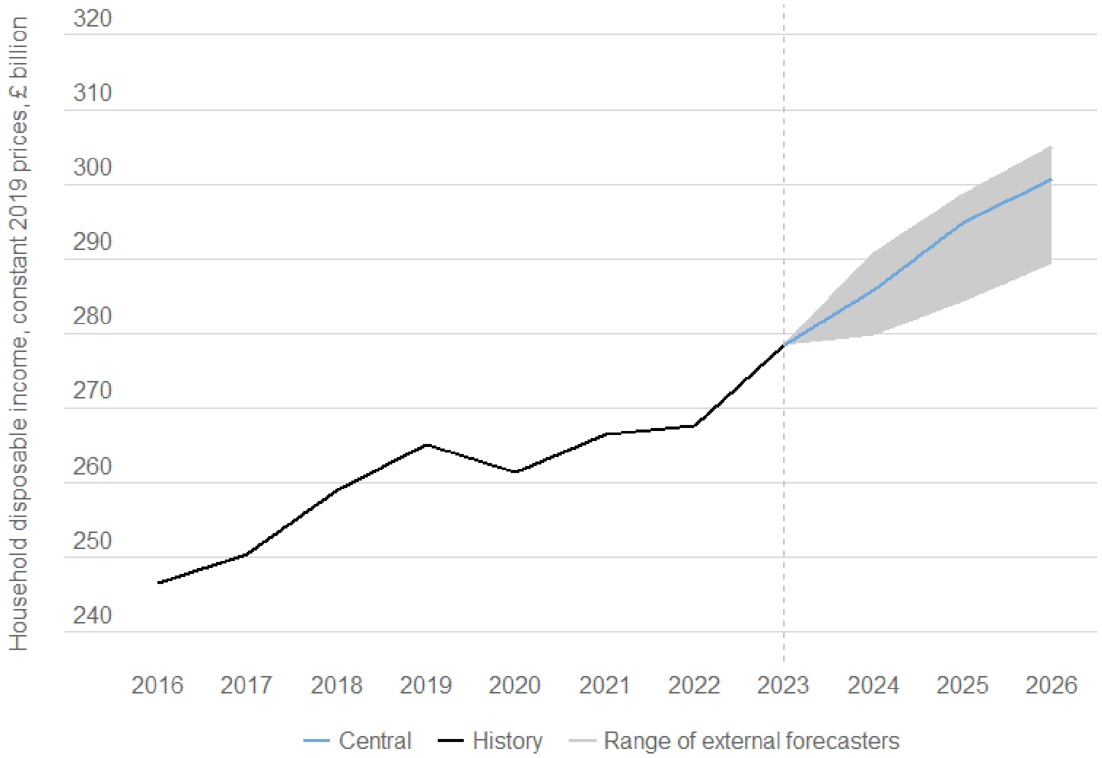
This forecast represents an upward revision for 2024 and 2025 compared to our July LEO forecast, which anticipated growth of 1.9% in 2024 and 2.8% in 2025. However, the projection for 2026 has been revised downward, from 2.6% in the previous forecast to 2.0%.

Recent data on real disposable income at the UK level indicates a notable improvement, driven by easing inflation and wage growth outpacing price increases. In the short term, we anticipate this trend will continue, as subdued inflation and stronger wage growth enhance household purchasing power. Nevertheless, in the medium term, real income growth may moderate as wage pressures ease and economic conditions stabilise, potentially leading to a more balanced growth trajectory.

Annual growth (%)



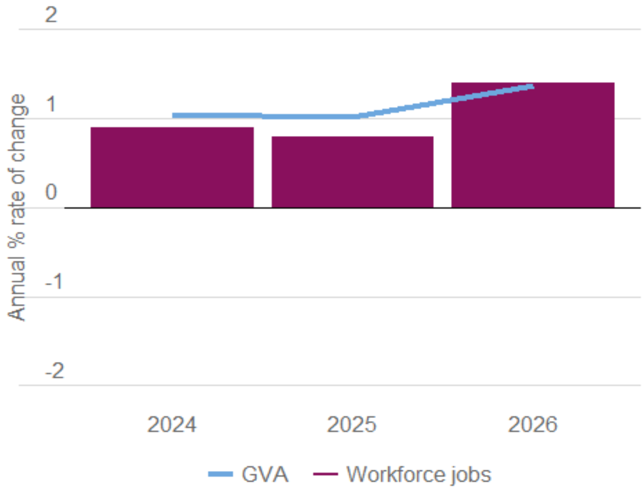
Level (constant year 2019, £ billion)



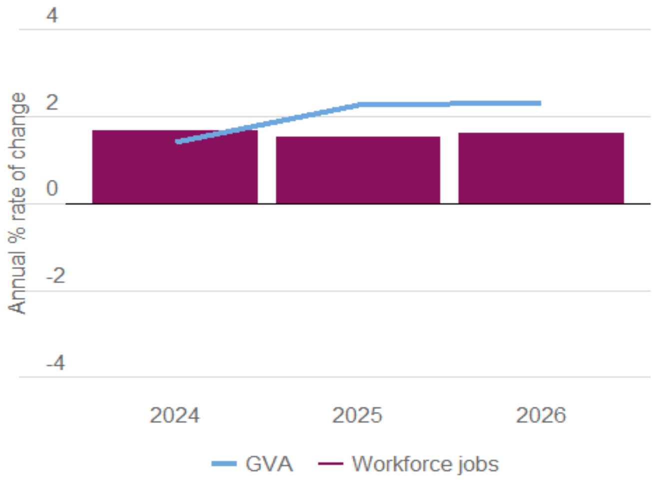
(See Chapter 4 for tables of historical data)

Output and employment growth by sector
(% annual change)

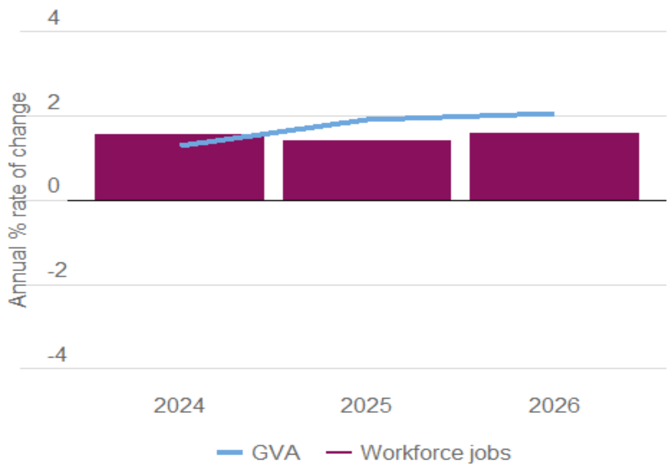
Financial services



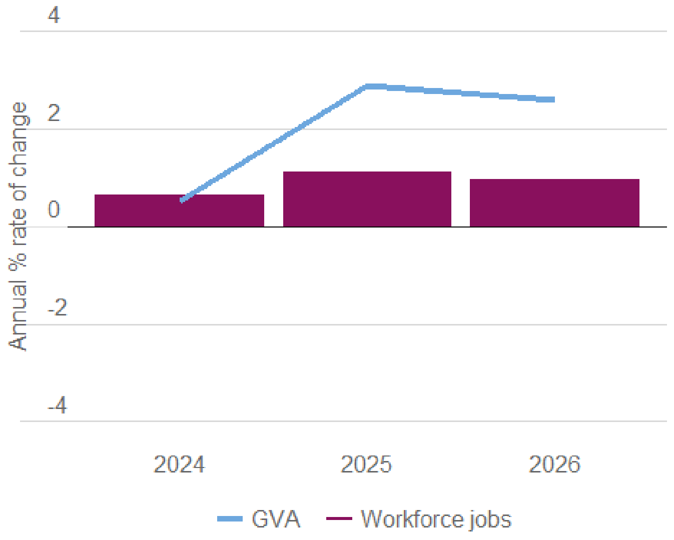
Business services



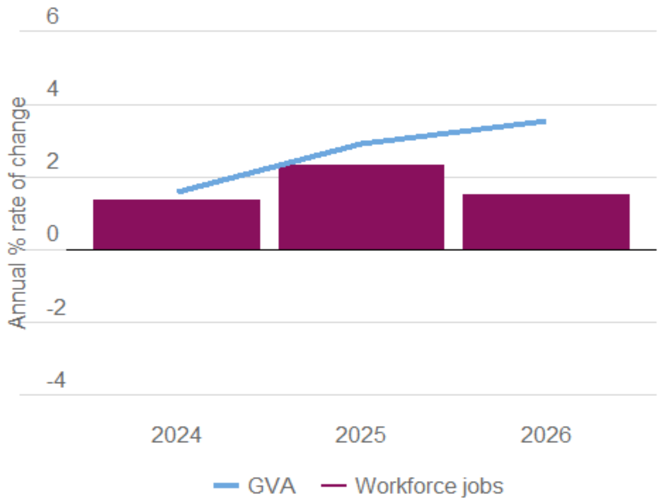
Finance and business (combined)



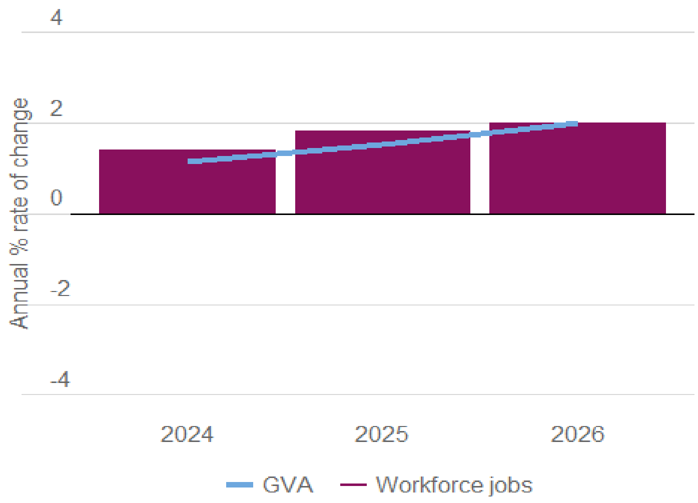
Distribution, accommodation and food services



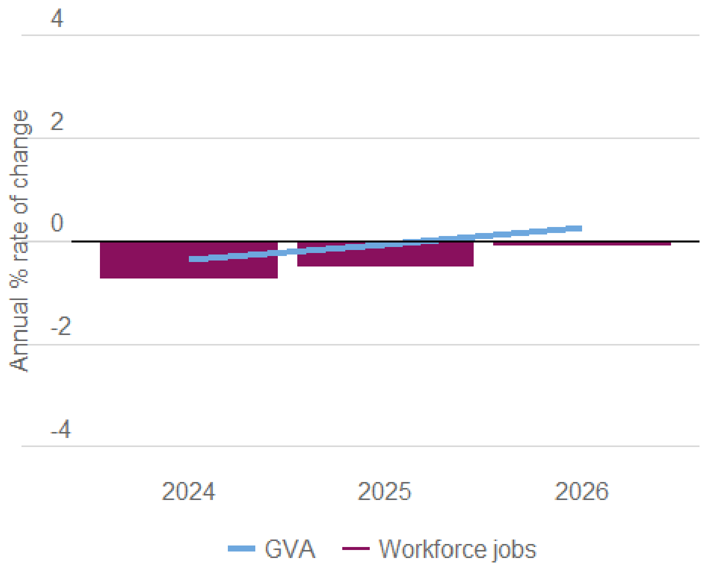
Transport and storage



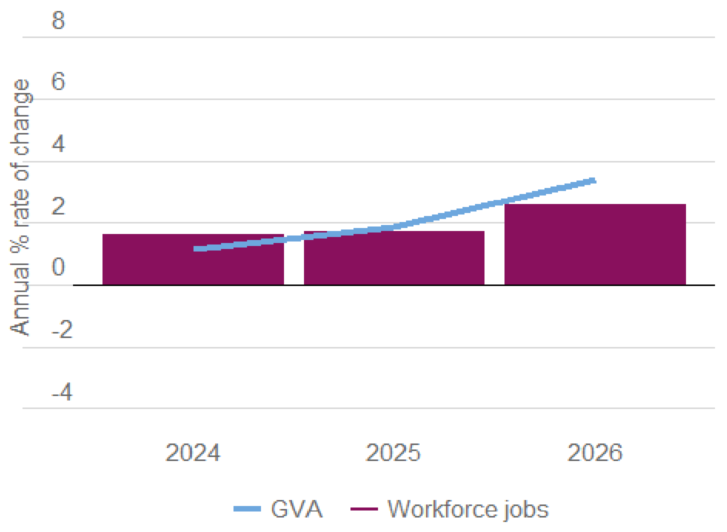
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector
(% annual change)

Main sector	2024	2025	2026
Financial services			
Output	1.0	1.0	1.4
Jobs	0.9	0.8	1.4
Business services			
Output	1.4	2.3	2.3
Jobs	1.7	1.5	1.6
Financial and business services			
Output	1.3	1.9	2.1
Jobs	1.6	1.4	1.6
Distribution, accommodation and food services			
Output	0.5	2.9	2.6
Jobs	0.6	1.1	1.0
Transportation and storage			
Output	1.6	2.9	3.5
Jobs	1.4	2.3	1.5
Other (public & private) services			
Output	1.1	1.5	2.0
Jobs	1.4	1.8	2.0
Manufacturing			
Output	-0.4	-0.1	0.3
Jobs	-0.7	-0.5	-0.1
Construction			
Output	1.2	1.9	3.4
Jobs	1.6	1.7	2.6
(Memo: non-manufacturing)			
Output	1.2	2.0	2.2
Jobs	1.3	1.5	1.6

5.2 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparisons in Figures 5.2 and 5.3.

The large variation seen in projections produced over the last three years is partially due to the revisions of output and labour force data by the ONS. Additionally, some variation is attributable to the uncertain environment and evolving public health and economic policy responses to the pandemic and the cost-of-living crisis.

Workforce jobs

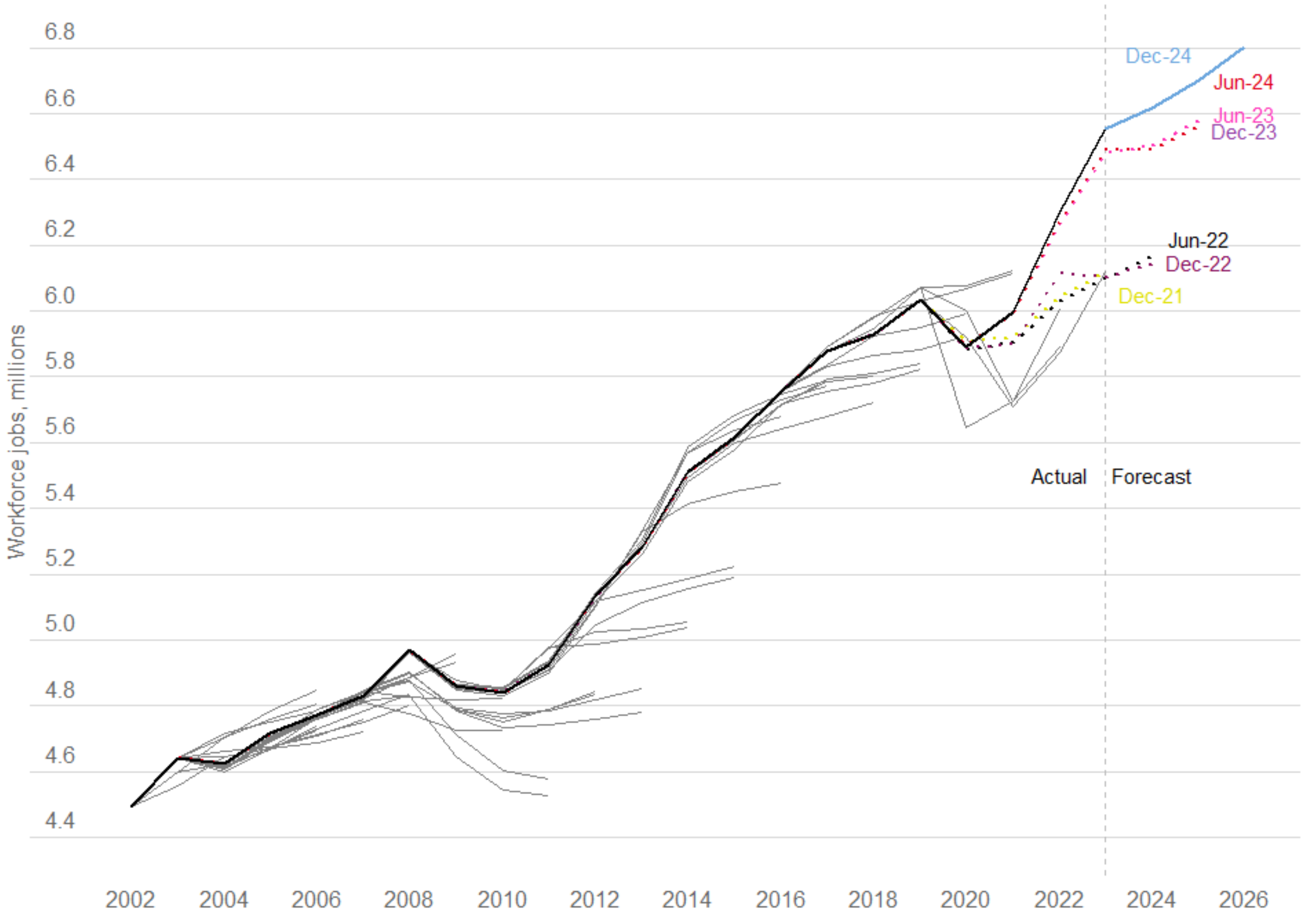
The level of London's workforce jobs reached its 2019 level in early 2022 and is not set to decline again in the next three years.

From September 2022 onwards, the reweighting of the Labour Force Survey caused a step change discontinuity of the workforce jobs numbers from the ONS, which thus causes large gaps in projections produced in 2022 and 2023.

This profile for the level of workforce jobs is quite similar to the July forecast in this year, with slightly upward adjustments for each following two years and are hardly distinguishable on Figure 5.2. The trends in these two projections reflect the strong recovery in labour demand, limited disruption following the end of furlough, and higher-than-expected immigration.

Figure 5.2: Employment – latest forecast compared with previous forecasts

(millions of workforce jobs)



Source: ONS, GLA Economics; Note: grey lines show job levels under historic GLA Economics forecasts of employment growth. The last seven GLA Economics forecasts are also shown (and labelled) in colour.

Table 5.3: Comparisons with previous published forecasts[38]
(London workforce jobs, % annual growth)

Forecast	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Dec-24	**1.7%**	**4.3%**	**2.9%**	**4.3%**	**2.0%**	**2.5%**	**2.1%**	**0.9%**	**1.8%**	**-2.3%**	**1.7%**	**5.1%**	**4.0%**	**1.3%**	**1.5%**	**1.6%**
Jun-24														1.0%	1.3%	1.5%
Dec-23													3.5%	0.1%	1.5%	
Jun-23													3.4%	0.4%	1.2%	
Dec-22												3.6%	-0.2%	0.7%		
Jun-22												2.2%	1.1%	1.2%		
Dec-21											0.2%	2.1%	1.2%			
May-21											-3.6%	2.9%	4.2%			
Dec-20										-1.1%	-4.6%	3.0%				
Jun-20										-7.0%	1.4%	4.9%				
Dec-19									1.5%	0.1%	0.7%					
Jun-19									0.8%	0.7%	0.8%					
Nov-18								1.5%	0.5%	0.7%						
May-18								0.6%	0.3%	0.7%						
Nov-17							1.4%	0.3%	0.5%							
Jun-17							0.7%	0.5%	0.7%							
Nov-16						2.5%	1.2%	0.3%								
May-16						0.7%	0.7%	0.7%								
Nov-15					1.7%	1.2%	0.7%									
May-15					1.7%	1.2%	0.7%									
Nov-14				4.5%	1.2%	0.7%										
May-14				1.6%	0.7%	0.5%										
Nov-13			1.3%	0.8%	0.7%											
Jul-13			0.6%	0.7%	0.7%											
Nov-12		1.0%	0.2%	0.4%												
Jun-12		0.2%	0.4%	0.6%												
Nov-11	0.1%	0.4%	0.4%													
May-11	0.1%	0.7%	0.8%													
Oct-10	0.6%	1.0%														
Jun-10	0.8%	1.1%														
Oct-09	-0.6%															

Source: ONS, GLA Economics

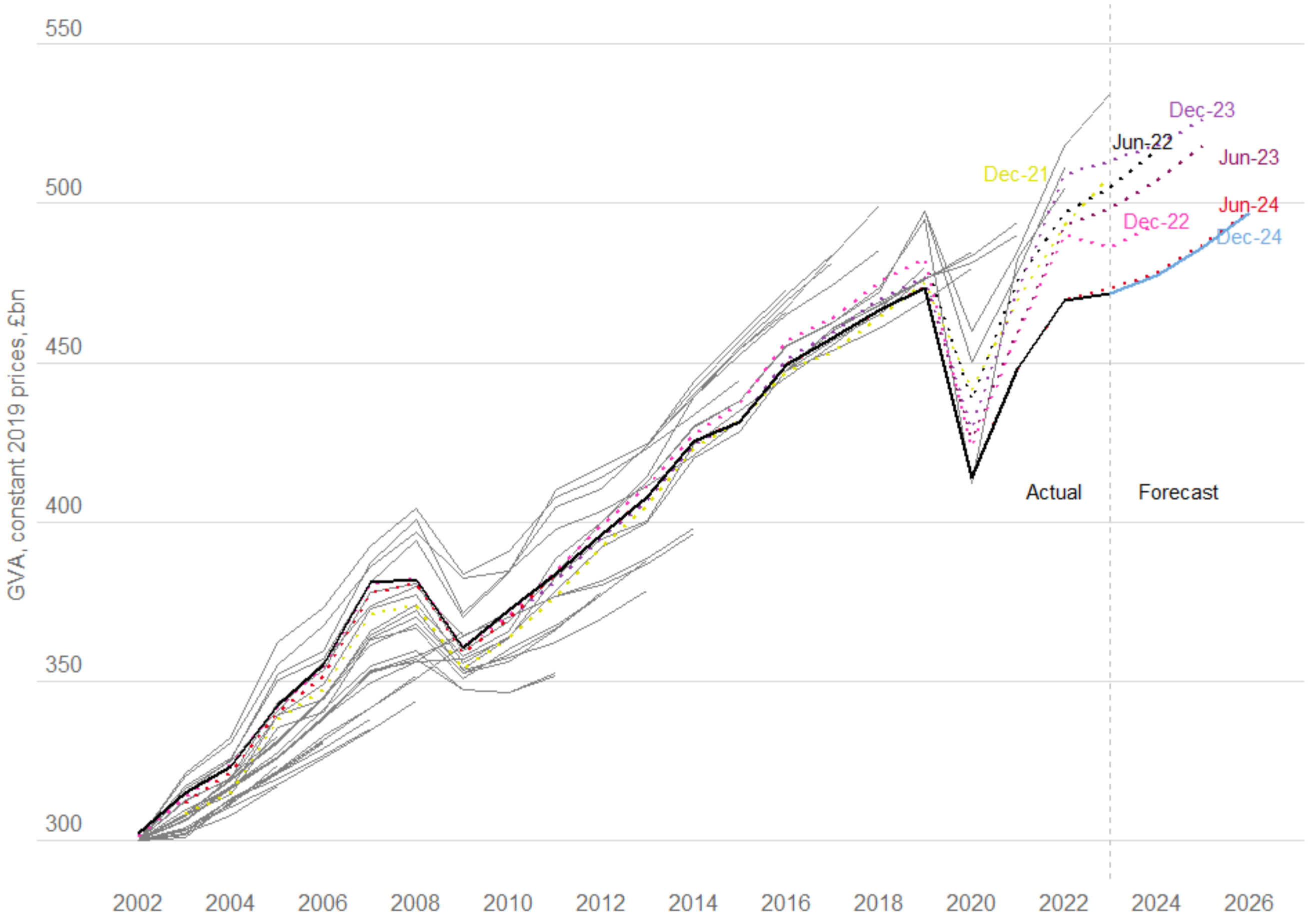
[38] This table only reports forecasts for 2011 onwards unlike Figure 5.2. For earlier GLA Economics forecasts please see previous editions of London's Economic Outlook.

Output

The most recent medium-term forecast for London's GVA level remains broadly in line with the projections made in July 2024. Significant discrepancies between the latest two projections and earlier ones are due to data revisions. Historical data for 2020 and 2021 was significantly revised downward by the ONS in its regional output publication. These revisions make comparisons between forecast levels less straightforward.

Figure 5.3: Output – latest forecast compared with previous forecasts

(constant prices (base year 2019), £ billion)



Source: ONS, ESCoE, GLA Economics; Note: the grey lines show levels of GVA given historic GLA Economics forecasts of GVA growth. The last seven GLA Economics forecasts are also shown (and labelled) in colour.

Table 5.4: Comparisons with previously published forecasts[39]
(London GVA, % annual growth)

Forecast	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Dec-24	**3.0%**	**3.2%**	**3.0%**	**4.3%**	**1.4%**	**4.1%**	**1.9%**	**1.9%**	**1.5%**	**-12.6%**	**8.2%**	**4.8%**	**0.5%**	**1.2%**	**1.9%**	**2.2%**
Jun-24														1.1%	1.9%	2.2%
Dec-23													0.9%	1.0%	1.6%	
Jun-23													1.1%	1.8%	2.2%	
Dec-22												6.9%	-0.8%	1.5%		
Jun-22												4.5%	1.6%	2.3%		
Dec-21											6.4%	5.0%	3.1%			
May-21											5.4%	6.9%	3.1%			
Dec-20										-9.5%	6.2%	6.9%				
Jun-20										-16.8%	17.2%	4.5%				
Dec-19									1.8%	1.1%	1.8%					
Jun-19									1.5%	1.6%	2.2%					
Nov-18								1.9%	1.6%	1.9%						
May-18								1.6%	1.9%	2.2%						
Nov-17							2.1%	1.8%	2.6%							
Jun-17							2.3%	2.4%	2.9%							
Nov-16						2.8%	2.0%	2.3%								
May-16						2.9%	3.4%	3.3%								
Nov-15					3.4%	3.2%	2.7%									
May-15					3.6%	3.2%	2.5%									
Nov-14				4.8%	3.3%	3.1%										
May-14				3.8%	3.2%	2.6%										
Nov-13			2.2%	2.5%	2.5%											
Jul-13			1.9%	2.4%	2.5%											
Nov-12		0.9%	1.8%	2.4%												
Jun-12		1.2%	1.9%	2.5%												
Nov-11	1.4%	2.0%	2.4%													
May-11	2.0%	2.6%	2.9%													
Oct-10	2.4%	2.9%														
Jun-10	2.8%	3.3%														
Oct-09	1.5%															

Source: ONS, ESCoE, GLA Economics

[39] This table only reports forecasts for 2011 onwards, unlike Figure 5.3. For earlier GLA Economics forecasts please see previous editions of London's Economic Outlook.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report 'employment' refers to 'workforce jobs' and uses the ONS historical series as a base for the forecast.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

At the time of writing national statistics estimates of real regional GVA are available up to 2022 from the ONS[40]. The historic real London GVA figures used in this GLA Economics' forecast are estimates produced by GLA Economics using ONS data.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases, the expenditure of non-profit organisations is included and in other cases it is not.

[40] ONS Regional GVA (balanced approach).

Appendix B: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
BoE	Bank of England
bn	Billion
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
ECB	European Central Bank
EE	Experian Economics
EERI	Effective Exchange Rate Index
EU	European Union
Fed	Federal Reserve
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HM Treasury	Her Majesty's Treasury
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
m	Million
MPC	Monetary Policy Committee
OBR	Office for Budget Responsibility
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
PMI	Purchasing Managers' Index
Q2	Second Quarter
QE	Quantitative Easing
RHS	Right Hand Scale
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
TfL	Transport for London

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