GLAECONOMICS

Forecast report

London's Economic Outlook: Autumn 2019
The GLA's medium-term planning projections

December 2019

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1. Executive summary

GLA Economics' 35th London forecast[1] suggests that:

- London's Gross Value Added (GVA) growth rate is forecast to be 1.8% in 2019. The growth rate is expected to decrease to 1.1% in 2020, before increasing to 1.8% in 2021.
- London is forecast to see increases in the number of workforce jobs[2] in 2019, 2020 and 2021.
- London's household income and spending are both forecast to increase over the next three years.

Table 1.1 summarises this report's forecast growth rates for GVA, jobs, household spending and household income. It also provides an average of independent forecasts for the first three of these economic indicators.

Table 1.1: Summary of forecasts

Annual growth rates (per cent)	2018[3]	2019	2020	2021
London GVA[4] (constant 2016, £ billion)	1.5	1.8	1.1	1.8
Consensus (average of independent forecasts)		1.5	1.6	2.1
London civilian workforce jobs	1.5	1.5	0.1	0.7
Consensus (average of independent forecasts)		1.6	0.8	0.9
London household spending (constant 2016, £ billion)	1.8	2.0	2.1	2.4
Consensus (average of independent forecasts)		2.2	2.0	2.3
London household income (constant 2016, £ billion)	3.8	2.8	2.6	3.0
Memo: Projected UK RPI[5] (Inflation rate)	3.3	2.7	2.8	3.1
Projected UK CPI[6] (Inflation rate)	2.3	1.9	2.0	2.0

Sources: GLA Economics' Autumn 2019 forecast and consensus calculated by GLA Economics

This forecast does not take account of any new policies of the newly elected Government but does reflect previous announcements that are unlikely to change.

After a request from the UK Government the European Union (EU) has further extended the Article 50 process to leave the EU to the end of January 2020 from what was the expected and revised leaving date of

[1] The forecast is based on an updated in-house model built by GLA Economics which will be described in a forthcoming publication.
[2] Unless stated otherwise any reference to jobs in the main text refers to workforce jobs.
[3] Historic data for London's GVA and workforce jobs are based on ONS actual data, while household spending and household income are based on GLA Economics forecasts.
[4] The methodology used to estimate London's GVA is outlined in Keijonen, M & van Lohuizen, A (2016). 'Modelling real quarterly GVA data for London', GLA Economics Current Issues Note 50, December 2016.
[5] 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 (2019). 'Forecasts for the UK economy: a comparison of independent forecasts', August 2019. Data for 2018 is from the ONS, Inflation and price indices - Office for National Statistics.
[6] 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 (2019). 'Forecasts for the UK economy: a comparison of independent forecasts', August 2019. Also, since December 2003, the Bank of England's symmetrical inflation target has been annual CPI inflation at 2 per cent. Data for 2018 is from the ONS, Inflation and price indices - Office for National Statistics.

31 October 2019. A subsequent transition period is expected to last to 31 December 2020 although a number of commentators have suggested this may not be long enough to negotiate a free trade agreement with the EU and may need extending. The six London's Economic Outlook's (LEO)[7, 8, 9, 10, 11, 12] since the June 2016 referendum result have examined London's position given this vote in detail. Although a new draft withdrawal agreement between the UK and EU was agreed in October, this was not ratified by the UK parliament before the calling of the general election. Even if it was ratified by both the UK and EU Parliaments in January, the withdrawal agreement only sets out the high-level terms of the UK's future relationship with the EU. The details of this relationship would be the subject of the next stage of discussions to the end of 2020. Box 3.2 in Chapter 3 of this forecast summarises what has occurred in the Brexit process since the publication of the Spring 2019 LEO, and its implications for the economy.

Beyond the immediate and large depreciation of sterling seen in the aftermath of the EU referendum vote, the economic shock of the UK's decision to leave the EU has been slower than some expected in the run up to the referendum. However, the evidence indicates there has been a dampening effect on the economy and that these effects continue as the initial Brexit process has been extended. Indicators of economic sentiment have been subdued over most of 2019 as one Brexit deadline was approached and then passed without any resolution to the issue and with the risk of a disruptive 'no deal' Brexit increasing as each deadline approached. The ONS meanwhile reported a mixed picture for economic growth which generally continued albeit at a subdued rate (and with the second quarter of 2019 seeing negative growth). At the start of the year there was a one-off boost to the economy from manufacturer stockpiling in case of a no-deal Brexit in March, but this reversed in the second quarter contributing to the decline seen in that quarter. However, there is little evidence that this reoccurred in the run up to the October deadline. That said, the effects of lower net EEA migration and lower business investment may well continue.

Although the trend of a continuing expansion of London's economy continues, this is at a generally slower pace than seen in the middle years of the decade. As noted, this moderation in growth is also seen at the UK level. For example, the Bank of England's agents[13] found in the third quarter of 2019 that "consumption growth weakened. This partly reflected base effects from strong sales a year ago when there was a boost from warm weather and the football World Cup. Contacts reported that Brexit uncertainty had also weighed a little on spending recently". While "investment intentions weakened a little further and remained at a nine-year low. Brexit uncertainty continued to dampen companies' appetite to invest". Still "Business services continued to grow at a modest rate. Weaker demand for transaction-related services was partially offset by strong demand for IT services".

In terms of credit conditions, the Bank noted that "that the availability of secured credit to households was unchanged in the three months to end-August 2019 (Q3) but was expected to increase slightly over the next three months to end-November 2019 (Q4)". They added that, "the availability of unsecured credit to households was reported to have decreased slightly in Q3 and was expected to remain unchanged in Q4". And "the overall availability of credit to the corporate sector was reported to have remained unchanged in Q3, and this was the case for small, medium and large businesses[...] The overall availability of credit to the corporate sector was expected to decrease in Q4"[14].

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[7] GLA Economics (2016). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections', November 2016.
[8] GLA Economics (2017). 'London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections', June 2017.
[9] GLA Economics (2017). 'London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections', November 2017.
[10] GLA Economics (2018). 'London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections', May 2018.
[11] GLA Economics (2018). 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', November 2018.
[12] GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019.
[13] Bank of England (2019). 'Agents' summary of business conditions - 2019 Q3', 19 September 2019.
[14] Bank of England (2019). 'Credit Conditions Survey', 2019 Q3, 17 October 2019.

Consumer confidence in London had been positive since March 2019 although it turned negative again in November, but had been generally positive since the end of 2016 barring a period of general negativity towards the end of 2017 and beginning of 2018. Overall it has also generally been above its long-run average and above the UK average, which has been negative for most of the post-referendum period[15]. Growth by companies in London appears to have generally stalled according to most measures of the Purchasing Managers' Index, despite having bounced back from their post-referendum fall. Still London's levels remain slightly above the UK average and point to very slight growth.

Data from the Office for National Statistics (ONS) show that the UK economy has resumed growth although at a moderate pace, with output increasing by 0.3% in Q3 2019 compared with the previous quarter. This was an improvement on the contraction of 0.2% seen in Q2 2019. On a year-on-year basis output growth in Q3 2019 remained very subdued at 1.0%, which was lower than the 1.3% seen in Q2 2019 and the weakest figure since Q1 2010[16].

Meanwhile, inflation – having risen due in part to the large depreciation of sterling after the referendum – has continued to fall back and is now below the Bank of England's inflation target. Consumer Prices Index (CPI) inflation fell to 1.5% in October 2019, down from 1.7% in September[17]. With inflation having eased and output growth remaining sluggish, the direction of the next move in interest rates remains uncertain. Thus, the Bank of England has observed "monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target. The [Monetary Policy] Committee [MPC] will, among other factors, monitor closely the responses of companies and households to Brexit developments as well as the prospects for a recovery in global growth. If global growth fails to stabilise or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in UK GDP growth and inflation. Further ahead, provided these risks do not materialise and the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target"[18].

The growth in jobs in London has been relatively strong although in the last quarter it did at least temporarily stop while continuing in the UK as a whole. Thus, the number of jobs in London fell slightly to 6.071 million in Q2 2019, a decrease of 34,000 jobs (0.6%) on the quarter[19] but an increase of 100,000 jobs (1.6%) on a year earlier. The employment rate in London stood at 74.6% in the three months to September 2019, remaining near a record high. However, although real weekly earnings in Great Britain have continued to rise in 2019 they remain just below their August 2007 peak[20]. Although inflationary pressures remain subdued and employment stands at around record levels economic growth has slowed and there is some speculation about the future strength of real earnings growth.

Risks to the economy have continued to rise throughout 2019. The main risk remains associated with the ongoing Brexit process, which appears to continue to dampen economic sentiment. The extensions of the Article 50 process and consequent reduction in time for the transition period has increased uncertainty, and so is unlikely to be beneficial to growth over the coming year. As observed in all published LEOs since the Brexit vote, the longer-term impacts of the vote remains hard to model precisely although the consensus from scenario analyses is that they will be negative and increasingly so the harder they are, with the

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[15] Douglass G. & Orellana, E. (2019). 'London's Economy Today – Issue 207'. GLA Economics.
[16] ONS (2019). 'GDP first quarterly estimate, UK: July to September 2019', 11 November 2019.
[17] ONS (2019). 'Consumer price inflation, UK: October 2019', 13 November 2019.
[18] Bank of England (2019), 'Monetary Policy Report – November 2019'.
[19] Regional labour market statistics in the UK Statistical bulletins - Office for National Statistics.
[20] ONS (2019). 'Average weekly earnings in Great Britain: November 2019', 12 November 2019.

proposed deal negotiated before 31 October being generally viewed as harder than the deal negotiated before 29 March. The exact long-term growth prospects will ultimately be highly dependent on what post-Brexit economic relationships and policies are followed.

Other risks to the UK economy also continue. For instance, UK productivity growth remains very poor with it being stagnant or falling for a year now[21]. If there is not a pick-up in productivity growth, as some forecasters think may be the case, it will continue to act as a dampener on GDP growth. It is one of the reasons to believe the economy may be near capacity despite slow growth.

There have also been growing concerns for the global economy, with signs of a global economic slowdown adding to other global risks. One specific risk, as highlighted in previous LEOs, is the high debt levels seen in China which may affect the economic stability of that country in the longer run and therefore have potential knock-on impacts on the global economy. The disruptive effects on the world economy of an intensification of the current regional conflicts also cannot be discounted. Further, at the beginning of November the Bank of England was seeing declining short-term prospects for global growth[22].

A further major risk remains the ongoing trade tensions between the US and other countries particularly China. More generally the increased protectionist sentiment in the US and to an extent in other countries is by itself a risk to global growth.

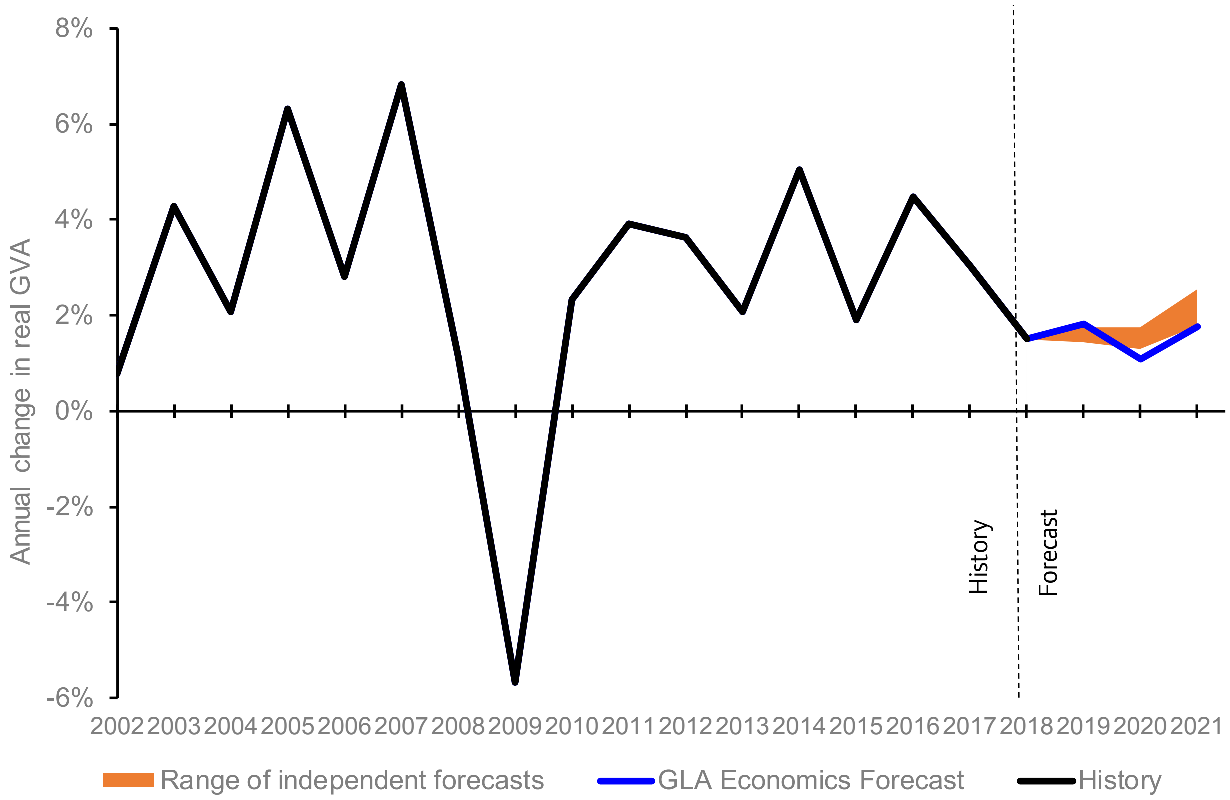
As has been highlighted for around a decade now, structural problems remain in the Eurozone and could reappear to cause further problems for its members. However, in general the risks in the Zone remain relatively subdued compared to some periods seen over the past decade. And, despite these risks, the Eurozone is expected to grow in the near term with its prospects remaining relatively upbeat compared to the situation seen in the first half of the decade despite the global economic slowdown.

The normalisation of monetary policy in the United States has however paused with the Federal Reserve having again begun reducing interest rates. This policy change may thus limit the potential negative knock-on effects that US monetary policy normalisation was believed to be having on the global economy.

In conclusion, the economic environment remains quite uncertain at the UK, London and global level. However, despite this the outlook for the London economy remains one of expected growth, albeit at a subdued rate, for the coming few years. Although inflation remains moderate, as economic growth is slowing it is possible that growth in real income will also become more subdued in the next few years. In turn, this is likely to put some restraint on household spending, which had been a large driver of economic growth over the last decade. Still, even if further tightening occurs in the coming years, UK monetary policy is most likely to stay at what are historically very accommodating levels for a time to come, with this providing support to the national and London economies. While business sentiment has fallen, and London consumer confidence about the short-term future economic outlook has gone up and down since the 2016 referendum, the economy has continued to grow, and sterling remains low. Fiscal policy is also moving in a more expansionary direction with the new Government announcing spending increases, although this in turn could lead to a worsening in the public finances. Of the sectors of the UK economy, Business services and finance continues to grow (although at a relatively subdued rate) and given its size in London its continued growth should provide some foundation to London's economic growth. Balancing all these factors acting on London's economy it is likely that both output (Figure 1.1) and employment (Figure 1.2) should see continued growth in the next few years, albeit at a more subdued rate than seen earlier this decade.

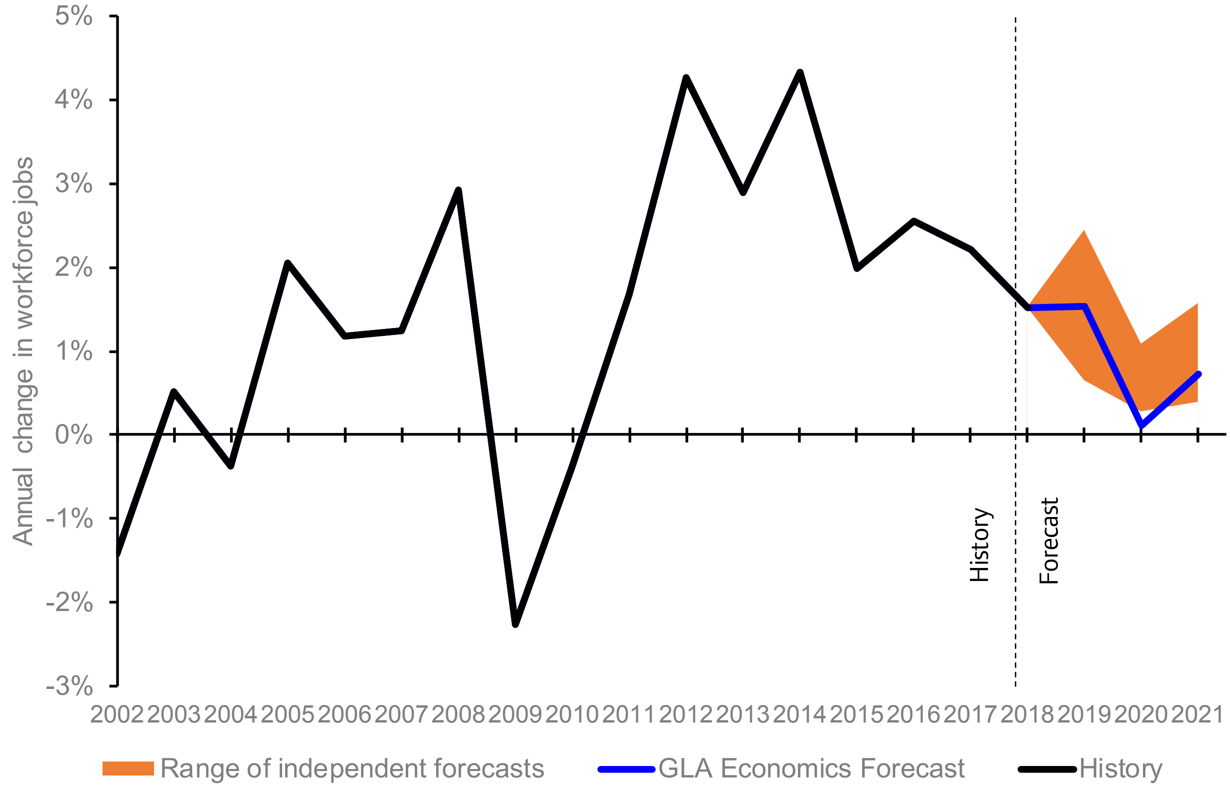
[21] ONS (2019). 'Labour productivity, UK: April to June 2019', 8 October 2019.
[22] Bank of England (2019), 'Monetary Policy Report – November 2019'.

Figure 1.1: Historic and forecast output growth



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

Figure 1.2: Historic and forecast employment growth



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

2. Introduction

The autumn 2019 edition of London's Economic Outlook (LEO) is GLA Economics' 35th 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 the recent economic conditions in London, the UK and the world economies 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 is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. Since the spring 2016 LEO, GLA Economics' forecast is based on an in-house model built by GLA Economics[23]. Before that, previous forecasts were based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)[24]
- Experian Economics (EE)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely, but these are not shown here. The low and high forecasts reported in this paper show the lowest and highest estimates respectively from the external organisations for each year. Therefore, the reported forecasts can come from different forecasters and means that they may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is, in GLA Economics' view, most *likely* to happen, not what will *definitely* happen.

[23] 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 will be delivered in an upcoming GLA Economics publication.
[24] CEBR does not provide a forecast for household expenditure in London.

3. Economic background: London continues to see growth against a background of economic uncertainty

This section provides an overview of recent developments in the London, UK and world economies.

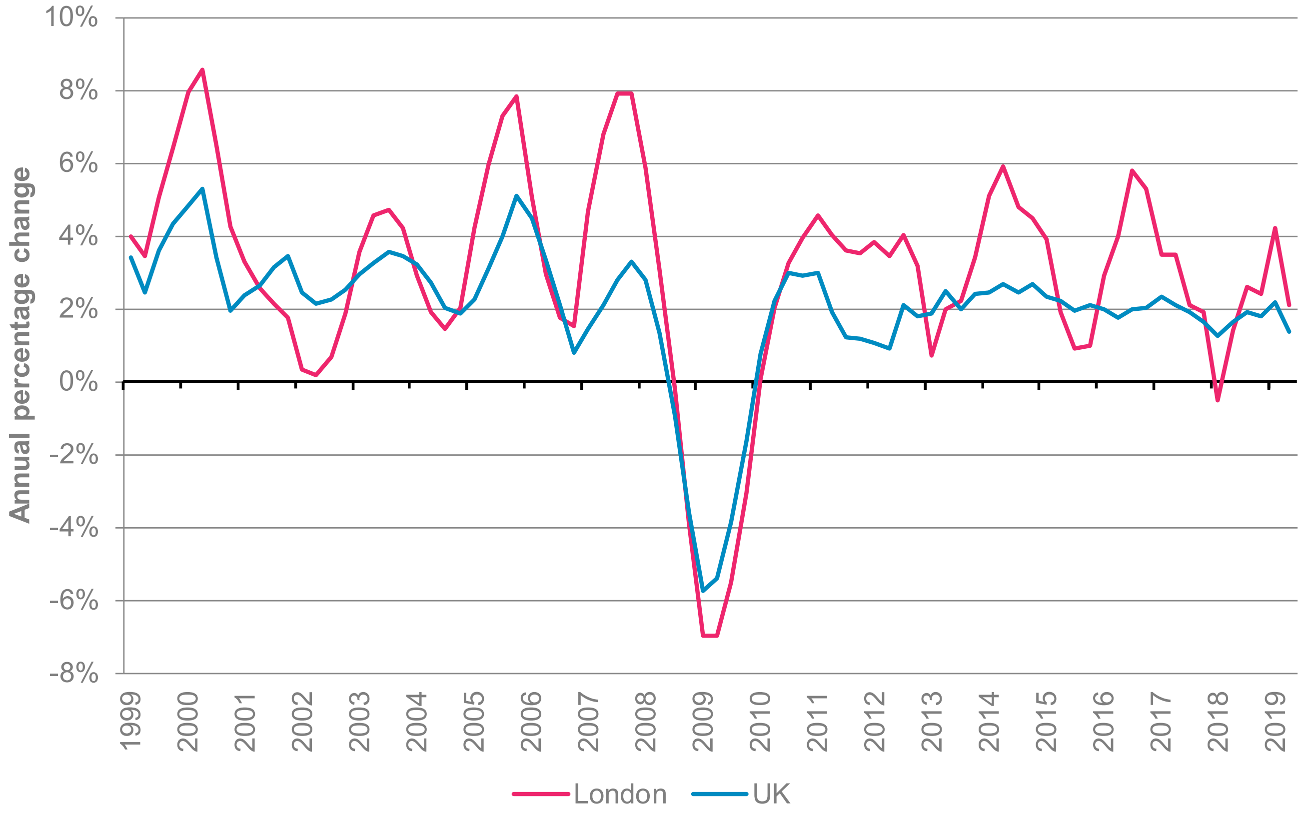
3.1 The London economy

London's economy – as measured by gross value added (GVA) – grew at a moderate pace of 2.1% between Q2 2018 and Q2 2019.

The UK has also seen generally subdued rates of real GVA growth in recent quarters. The UK grew 1.4% on average in the year to Q2 2019 - down from 1.6% in the year to Q2 2018.

Comparing London and the UK more closely, the capital has generally had a slightly faster rate of annual GVA growth than the rest of the country as shown in Figure 3.1. The latest data point – Q2 2019 – also shows that London continued the trend seen since Q1 2016 and grew at a faster rate than the UK (2.1% versus 1.4%). Further details on revisions to the historic GVA growth rate data for London is given in Box 3.1.

Figure 3.1: Annual rate of GVA growth for London and the UK, constant prices
Last data point is Q2 2019

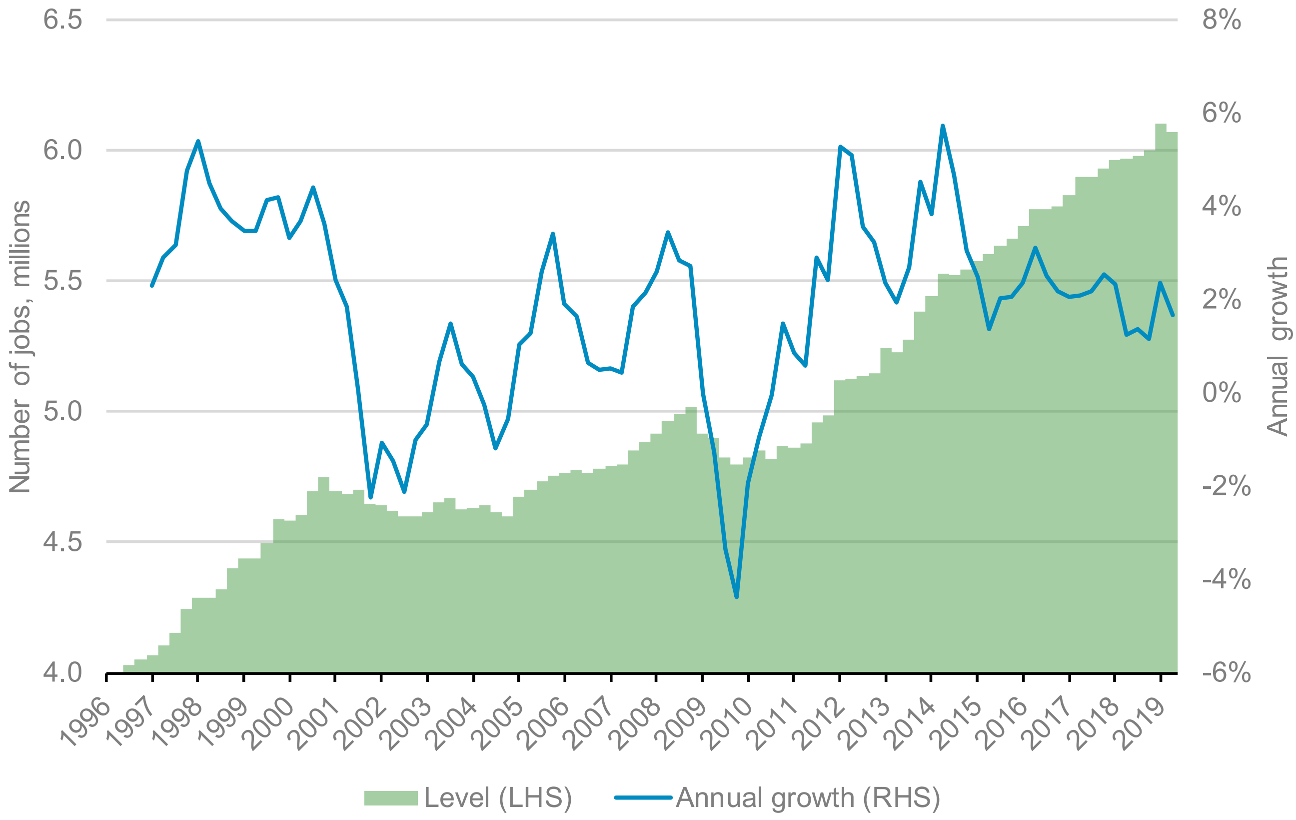


Source: ONS Regional GVA, GLA Economics

Looking at the labour market, London's employment rate has been hovering around its highest level (and the unemployment rate has been at one of the lowest levels) since data collection began in 1992, although it has shown some recent weakness. The employment rate shows the percentage of residents aged 16-64 who are in work and stood at 74.6% in the three months to September 2019, down 0.6 percentage points on the year. The unemployment rate shows the proportion of the 16 and over resident population who are unemployed but are wanting to work and stood at 4.6% in the three months to September, the same rate as a year earlier. For comparison the UK's employment rate stood at 76.0% in the three months to September and the unemployment rate was 3.9%.

The generally strong performance of London's labour market is also reflected in the number of jobs. The number of jobs in London (regardless of whether they are taken by London residents or not) grew 1.7% year-on-year in Q2 2019, the equivalent of 100,000 jobs, to reach 6.071 million (Figure 3.2). That said for the most recent period, the year-on-year rate of job creation in London was on a par with the UK average up to Q2 2019 (1.8%).

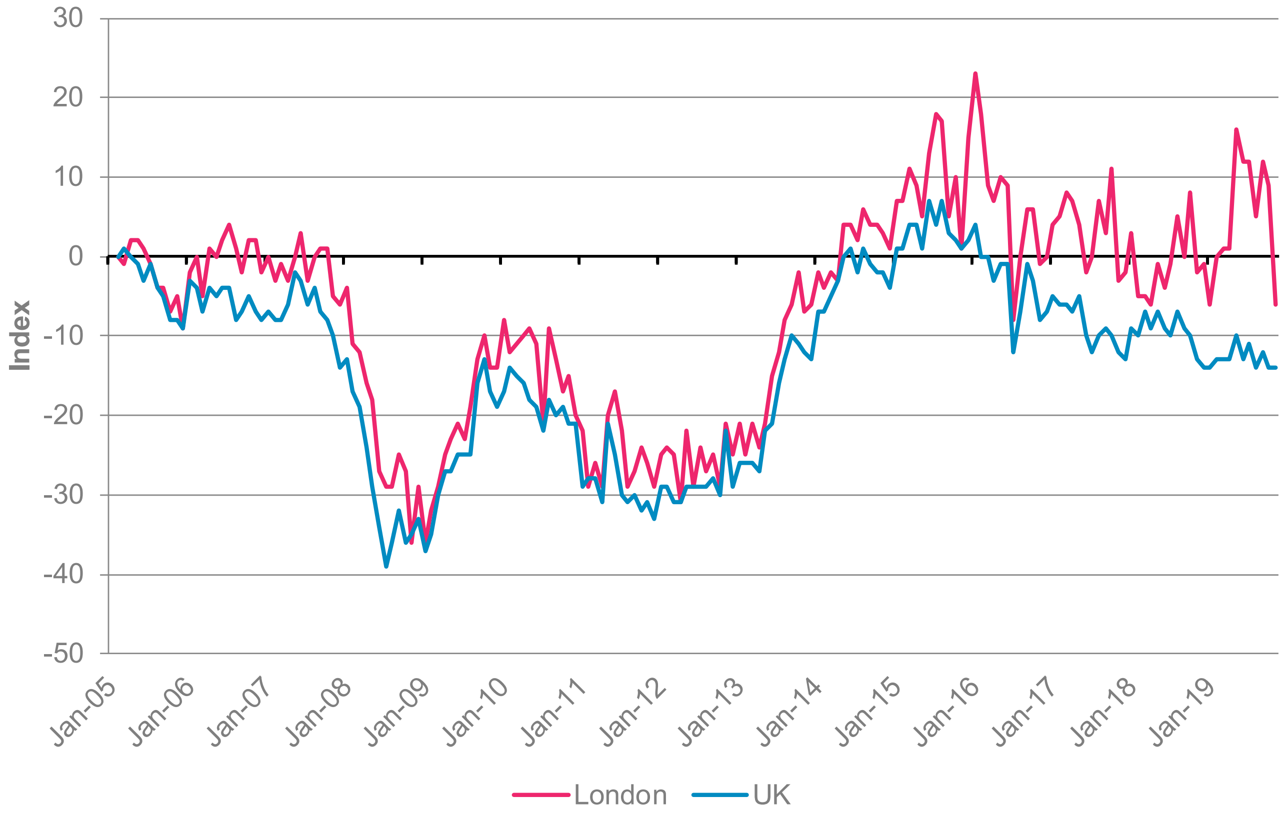
Figure 3.2: Number of workforce jobs in London
Last data point is Q2 2019



Source: ONS Workforce Jobs

London's economy is affected by increases in consumer spending, and in part driving this is consumer confidence. Data from GfK-NOP suggest that London consumers were positive towards the next 12 months in terms of their household finances, the general economy and the purchasing climate (Figure 3.3). The consumer confidence data for London has remained positive for most of this year although it turned negative in the most recent month (standing at -6 in November) and after being negative for much of 2018. Consumer confidence in London is also significantly higher than for the UK (-14) as a whole.

Figure 3.3: Consumer confidence
Last data point is November 2019

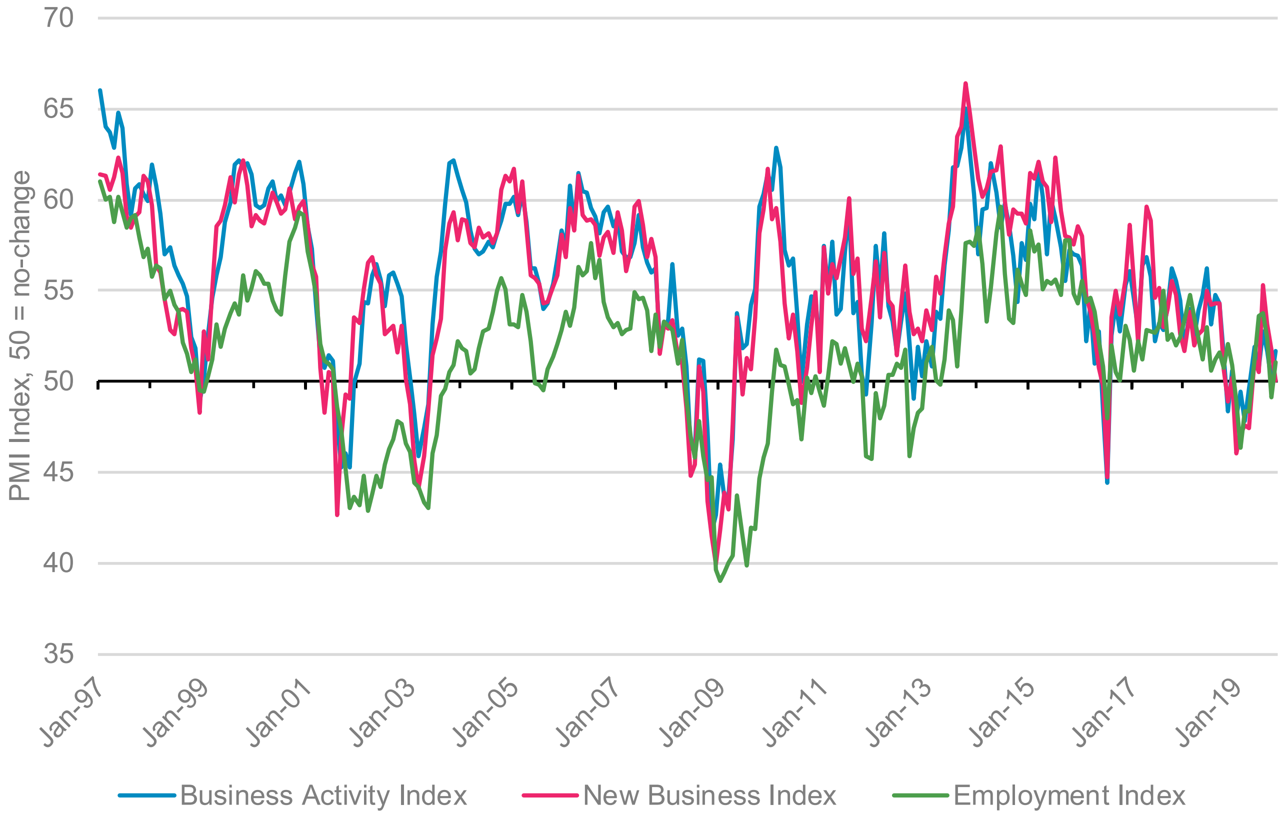


Source: GfK-NOP

Moving to businesses, the Purchasing Managers' Index (PMI) survey can show the state of overall business conditions in London[25]. It does so by asking private sector firms about the month-on-month trends in a variety of business indicators like new work and employment. The PMI data since July generally point to a weakening of business conditions in London, with firms reporting some months of declines in the levels of activity, new business and employment (Figure 3.4). A slowdown in the economy, but without a stalling of economic growth, is supported by London private sector firms remaining optimistic (but at a lower level than before) towards business conditions over the next year. The PMI business activity index was at 51.7 in October; although up from a recent low of 47.8 in March, it remains below the average of 55.7 since data collection began in 1997.

[25] 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 no-change mark, the faster the rate of growth or decline.

Figure 3.4: London PMI Business Activity, New Business and Employment Indices
Last data point for PMI is October 2019



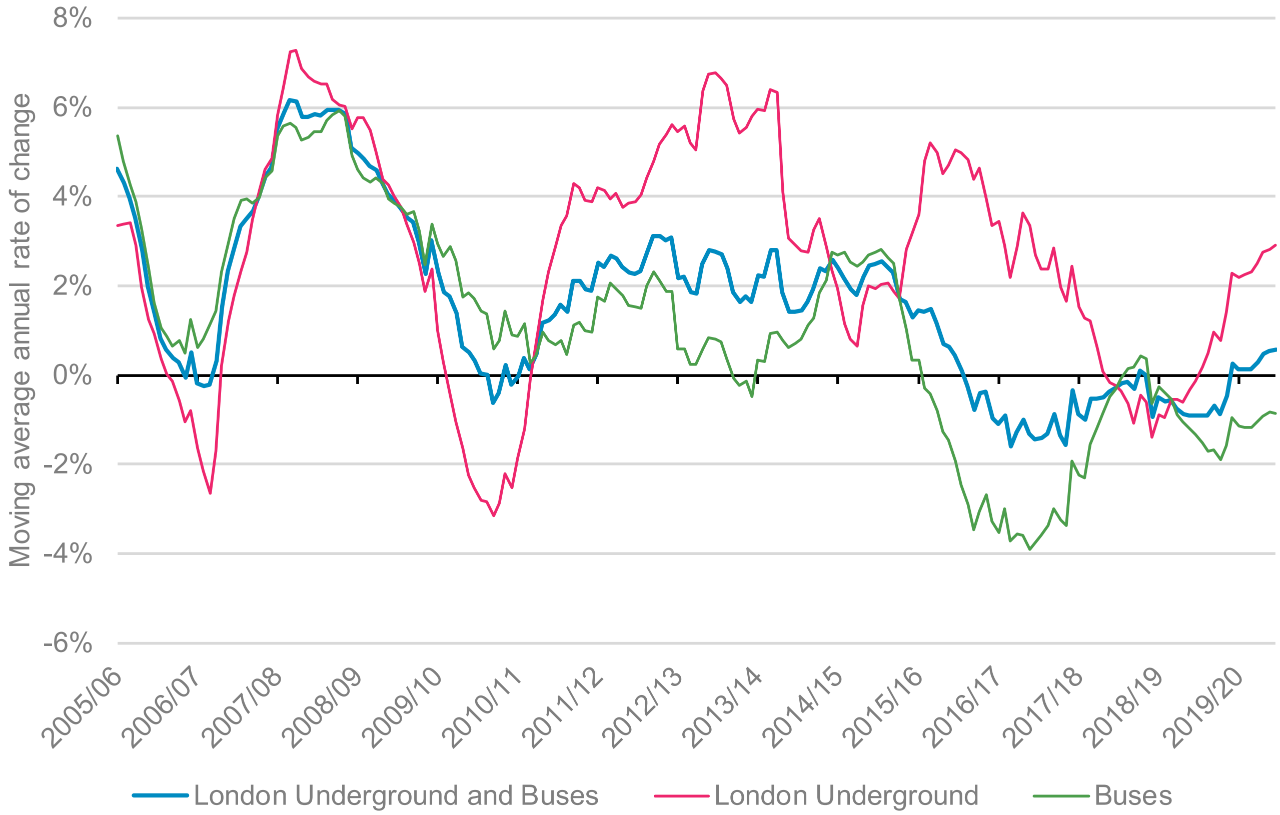
Source: IHS Markit

Other measures of expectations for the London economy in different surveys also present slightly more positive signs. Thus, the London Chambers of Commerce and Industry (LCCI) Capital 500 Quarterly Economic Survey found in Q3 2019 that, "several performance indicators have had their most positive reading in 2 or 3 years"[26], where for example, "export orders are now at their highest since Q2 2017, while the business investment indicator had its largest increase since Q1 2016".[27]

Public transport use is also another indicator that can shed light on the current state of the London economy. For example, more people travelling in London could reflect more jobs i.e. they are commuting to work. Alternatively, it could reflect increased leisure activities like shopping, which could indicate an increase in household spending. Having noted this, the moving average of the annual rate of change in total passenger journeys in London had been declining over the previous two financial years but has been positive throughout 2019/20 so far (Figure 3.5). In more detail, by mode of transport, the moving average of the annual rate of change in Tube passenger journeys had been negative since mid-2017 (this was the first time it has been negative in almost eight years) but turned positive again in the last few months of 2018, while the corresponding measure for bus use has been negative since the first few months of 2018.

[26] London Chamber of Commerce and Industry (2019), 'Capital 500: London Quarterly Economic Survey – Q3 2019'. October 2019.
[27] Ibid.

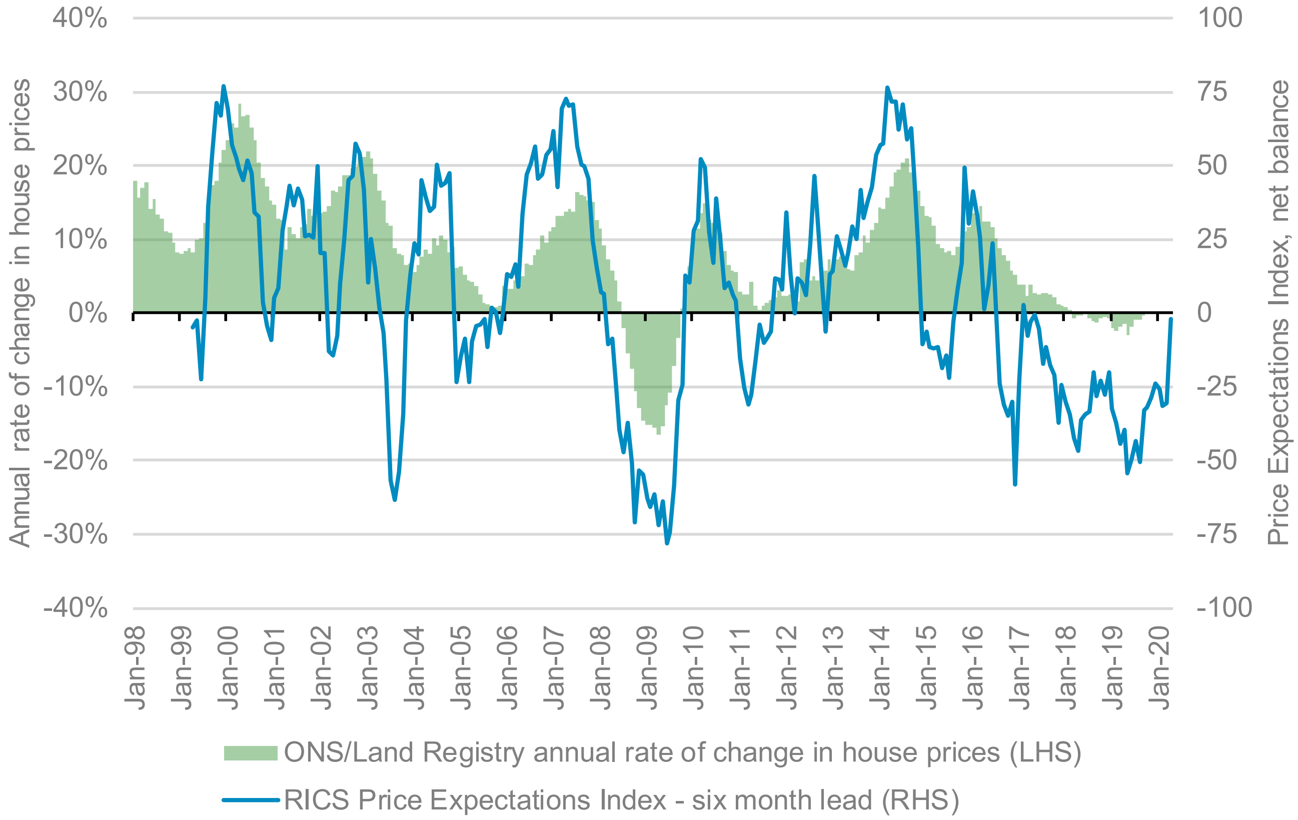
Figure 3.5: Public transport use in London
Last data point is the 28-day period ending 12 October 2019



Source: Transport for London

Finally, most of the evidence on London's housing market points to the moderation in prices seen in 2018 carrying over into the end of 2019. The average house price in London was £471,479 in September, according to data from the ONS and Land Registry. This has fallen 0.4% from a year earlier. This follows on from the annual price declines for every month since March 2018 which were the first annual declines since September 2009. This is in line with what survey data has been signalling for some months now. For instance, property surveyors responding to the Royal Institution of Chartered Surveyors (RICS) Housing Market Survey in April have been reporting, on balance, a reduction in London's house prices since September 2016. Moreover, the net balance was also negative for the Price Expectations Index suggesting that there could be further price reductions in the coming months (Figure 3.6).

Figure 3.6: House price inflation in London and the RICS Future Expectations Index
Last data points are September 2019 for house prices and October 2019 for RICS Housing Market Survey



Source: ONS/Land Registry House Price Index, RICS

Overall, the indicators discussed above suggest that London's economy is facing a challenging environment but appears to still be growing. This is a relatively strong performance given the very prolonged period of economic uncertainty it has experienced with this uncertain environment unlikely to dissipate in the very near future. While GVA growth in London has continued, it remains slower than most of the rates reported following the end of the financial crisis. Similarly, despite a quite tight labour market this still appears not to translate into strong real earnings growth, although consumer confidence has remained more buoyant than it has nationally. Additionally, firms' views towards the coming year are mildly positive.

Box 3.1: Further revision of the historic real GVA series for London

The medium-term forecasts for London's economy presented in this publication are based on a revised historic quarterly real GVA series for London. This is the second revision of London's real GVA historic data for our forecasts in this year, after the incorporation of recent ONS "balanced estimates" of historic annual real GVA (GVA (B)) in the last London's Economic Outlook (LEO) publication in June 2019[28]. The new change only affects the historic quarterly series of London's real GVA that GLA Economics has been using so far. This box explains the new data and the implications of this change on GLA Economics real GVA estimations.

[28] See Box 3.1 (pp. 14–17) in GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019.

In September 2019, the ONS published first historic quarterly real GDP data for English regions & UK nations[29] between 2013 and 2018. This was updated in October 2019 to include Q1 2019 data as well. These estimates are now available in the form of growth rates series and indices series but not in levels series yet. According to the ONS, the new data "should be interpreted with some caution" as they are still designated as experimental statistics. But, at the same time, they match the regional real GVA(B) annual series produced by the same institution for these years[30] and can be considered as equivalent to the historic quarterly real GVA(B) growth rate series for London. On this basis, the new real GDP growth rates for London will be considered by GLA Economics as real GVA(B) growth rates for both the historic ONS data (since year 2013) and the medium-term forecasts of London's economy published from the current LEO onwards.

So far, GLA Economics has been producing its own estimates of quarterly real GVA(B) series for London for all historic years from 1998 onwards based on both London's real GVA(B) annual series released by the ONS and the real GVA quarterly series for the UK, produced by the ONS as well. With the information then available to GLA Economics this constituted the optimal methodology available. However, these estimates differ from the new experimental ONS data as can be seen in Figures 3.7 and 3.8. It is important to note that this methodology will be still employed by GLA Economics for the period 1998 to 2012 – a period where the ONS has not released quarterly estimates yet – to produce the medium-term forecasts for London's economy.

A comparison between the GLA Economics (GLAE) historic estimates of London's real GVA in annual growth rates and the actual real GVA growth rates recently produced by the ONS is provided in Figure 3.7 and Figure 3.8. The first chart shows both the ONS and the GLAE series while the second chart provides the differences between the two series.

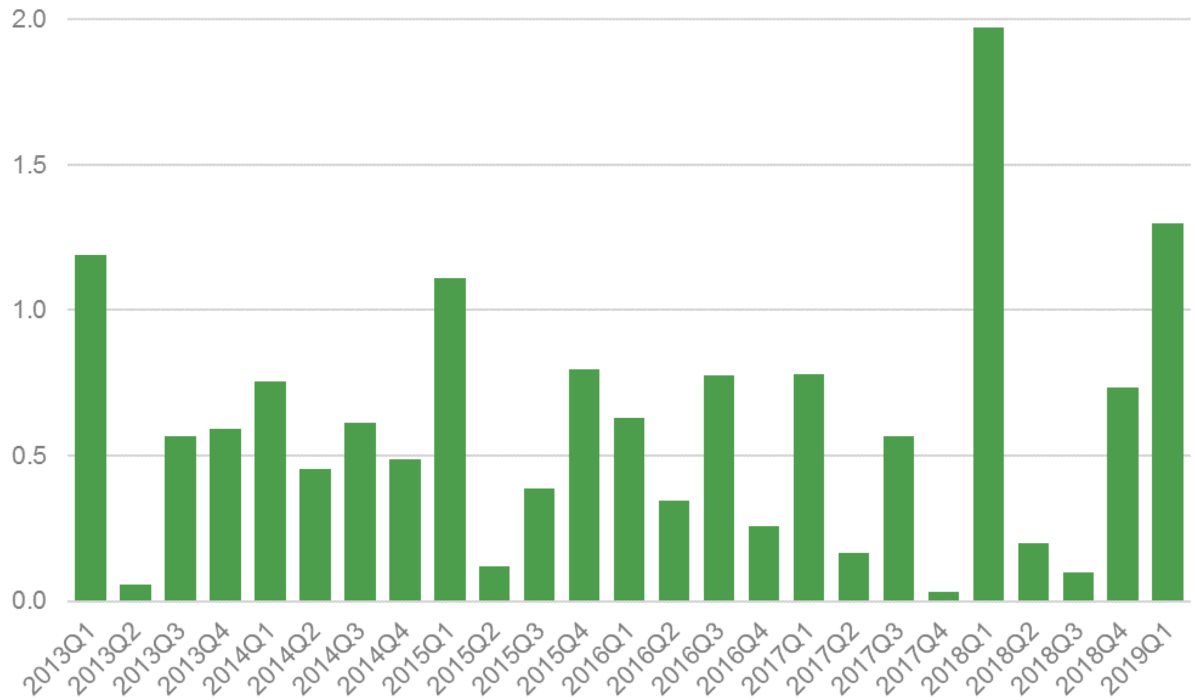
[29] And have since updated this estimate in October 2019: ONS (2019). 'GDP, UK regions and countries: January to March 2019'. 30 October 2019.

[30] The annual GVA(B) series is the current National Statistics measure of regional output in the UK.

Figure 3.7: London's real GVA annual growth rate, Q1 2013-Q1 2019

Source: GLA Economics and ONS data.

Figure 3.8: London's real GVA annual growth rate. Absolute difference in percentage points between GLAE estimates and ONS actual data, Q1 2013-Q1 2019



Source: GLA Economics.

As can be observed from Figures 3.7 and 3.8, GLAE estimates of historic quarterly real GVA annual growth rates in London captured the trends of the ONS actual data for the presented period (Q1 2013 – Q1 2019) generally well, although some estimation differences are evident for most of the periods. These differences are not the result of a persistent overestimation or underestimation in the GLAE figures and can be attributed to the use of different methodologies. While GLAE estimates were mainly driven by UK quarterly data, the actual ONS series is primarily based on business surveys and VAT turnover information. The average difference of the GLAE estimates for that period was 0.6 percentage points, while the maximum difference reached 2.0 percentage points in Q1 2018. With the exception of that quarter, and Q1 2013, Q1 2015, and Q1 2019, this difference was never above one percentage point for the whole analysed period.

The above-explained revision to the historic real GVA quarterly series for London might have an impact on the short-term (year 2019) and the medium-term (years 2020 and 2021) forecasts presented in this publication - chapter 5 - compared to previous LEO releases. The extent of this impact is expected to be insignificant in terms of forecasted dynamics and trends although some point forecasts might experience small corrections.

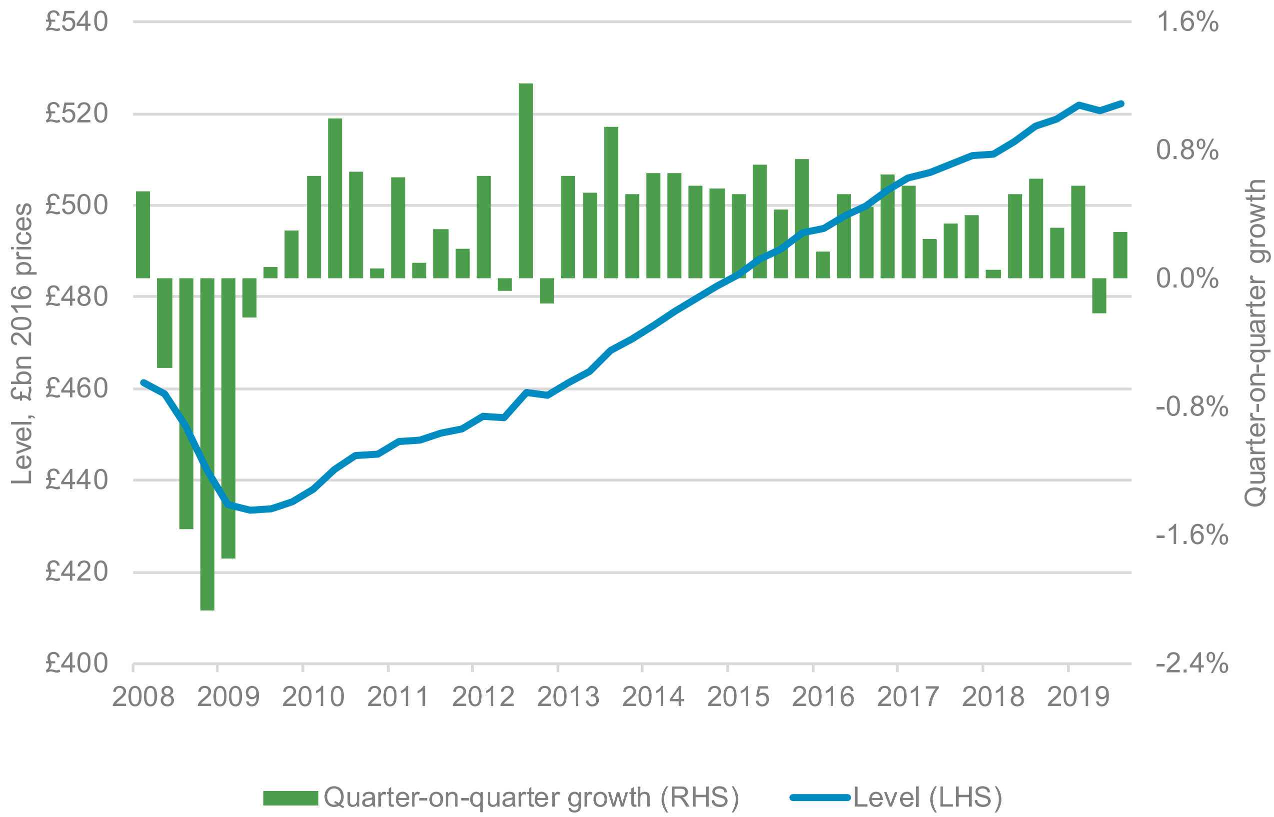
The ONS is dedicated to continue working on their regional output estimates and GLA Economics is committed to working with the ONS in the future to improve the provision of regional data for London.

3.2 The UK economy

The main measure of economic growth for the UK is Gross Domestic Product (GDP). On this basis, the UK economy grew 0.3% in Q3 2019 according to the first estimate from the ONS (Figure 3.9). While the estimates of GDP are potentially subject to revisions at a later stage, this was an improvement on the contraction seen in Q2 2019 (-0.2%). The volatility in the first half of the year related to the UK's original planned exit date from the European Union, "likely reflecting the effects of bringing forward activity in the first quarter of the year and the decline in car production owing to partial car plant shutdowns in April."[31] Commenting on the trend in GDP numbers the ONS noted that, "the underlying momentum in the UK economy shows some signs of slowing. Compared with Quarter 3 2018, the UK economy increased by 1.0%; this is the weakest figure since Quarter 1 (Jan to Mar) 2010"[32]. Real GDP now stands at 13.2% above its pre-financial crisis height of Q1 2008.

[31] ONS (2019). 'GDP first quarterly estimate, UK: July to September 2019', 11 November 2019.
[32] Ibid.

Figure 3.9: UK GDP in real terms
Last data point is Q3 2019 (First estimate)



Source: ONS (2019). '[GDP first quarterly estimate, UK: July to September 2019](#)', 11 November 2019

Looking at year-on-year changes in GDP reinforces the impression of slowing momentum. The UK economy grew at an annual rate of 1.0% in Q3 2019 which is below the post 2012 average of 2.2%. It is the lowest rate since Q1 2010 when the economy was coming out of the 2008 recession.

Looking slightly further back most, but by no means all, sectors of the UK economy grew over the year to Q3 2019 although at varying rates of speed. Construction output grew slowly at an annual rate of 1.2%, up from the 0.3% annual growth seen in Q2 2019. Strong growth in output was also seen in Transport, storage and communication (4.1%), Distribution hotels and catering (1.8%) and Government and other services (1.5%). However, the Business services and finance sector saw slow growth at 0.4% in Q3 2019, while Manufacturing shrank (-1.5%) after also falling in Q2 2019 (-1.3%) (Table 3.1).

Table 3.1: Percentage annual change in real GVA by broad industry group for the UK

	2017	2018				2019		
Industrial sectors	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Agriculture, forestry, and fishing	4.4%	-3.2%	-4.3%	-5.1%	-3.4%	-2.0%	-1.4%	-1.3%
Mining & quarrying inc oil & gas extraction	2.7%	0.6%	4.5%	6.7%	7.7%	5.7%	-0.3%	-5.3%
Manufacturing	3.3%	1.7%	1.2%	0.4%	-1.6%	0.9%	-1.3%	-1.5%
Electricity gas and water supply	-3.1%	2.4%	-3.9%	-3.0%	-3.0%	-6.9%	0.8%	-1.0%
Water supply, sewerage, etc.	0.5%	-4.7%	-0.4%	0.2%	-2.2%	-0.4%	0.5%	0.1%
Construction	5.4%	-1.1%	-0.6%	0.4%	-0.2%	3.7%	1.7%	1.2%
Distribution hotels and catering	1.3%	1.3%	2.7%	3.4%	4.0%	4.7%	2.7%	1.8%
Transport, storage and communication	3.5%	2.5%	2.5%	3.8%	4.1%	6.5%	5.5%	4.1%
Business services and finance	0.6%	1.8%	2.5%	2.3%	2.1%	0.8%	0.3%	0.4%
Government and other services	1.0%	0.8%	0.6%	1.3%	1.7%	1.6%	1.5%	1.5%

Source: ONS (2019). 'GDP first quarterly estimate, UK: July to September 2019', 11 November 2019

The GDP data can also be split into different types of final expenditure. That is, the expenditure on goods and services which are not used in the production process (i.e. as intermediate consumption). This includes final expenditure by households, general government and the non-profit institutions serving households, as well as expenditure used in gross capital formation (e.g. business investment)[33]. The latest data also refers to Q3 2019 and is shown in Table 3.2.

Table 3.2: Annual rates of real growth in domestic final expenditure for the UK

	2017	2018				2019		
Expenditure	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Households	1.5%	1.5%	1.8%	1.6%	1.5%	1.3%	1.1%	1.2%
Non-profit institutions	1.6%	1.6%	0.3%	0.8%	0.2%	-0.6%	-0.9%	-0.7%
General Government	0.4%	0.3%	0.2%	0.3%	1.8%	2.8%	4.0%	3.9%
Gross fixed capital formation	2.2%	1.2%	-0.6%	0.2%	-1.0%	0.8%	0.3%	-0.4%

Source: ONS (2019). 'GDP first quarterly estimate, UK: July to September 2019', 11 November 2019

Household expenditure is important to the UK economy, with it contributing around two-thirds to UK GDP in 2018. However, the latest estimates showed that consumer spending grew modestly at 1.2% year-on-year in real terms in Q3 2019. The other notable trend is for general government expenditure which saw an annual rate of growth of 3.9% in real terms during Q3 2019 after growing by 4.0% in Q2 2019. General government expenditure grew at a relatively subdued pace through most of 2018.

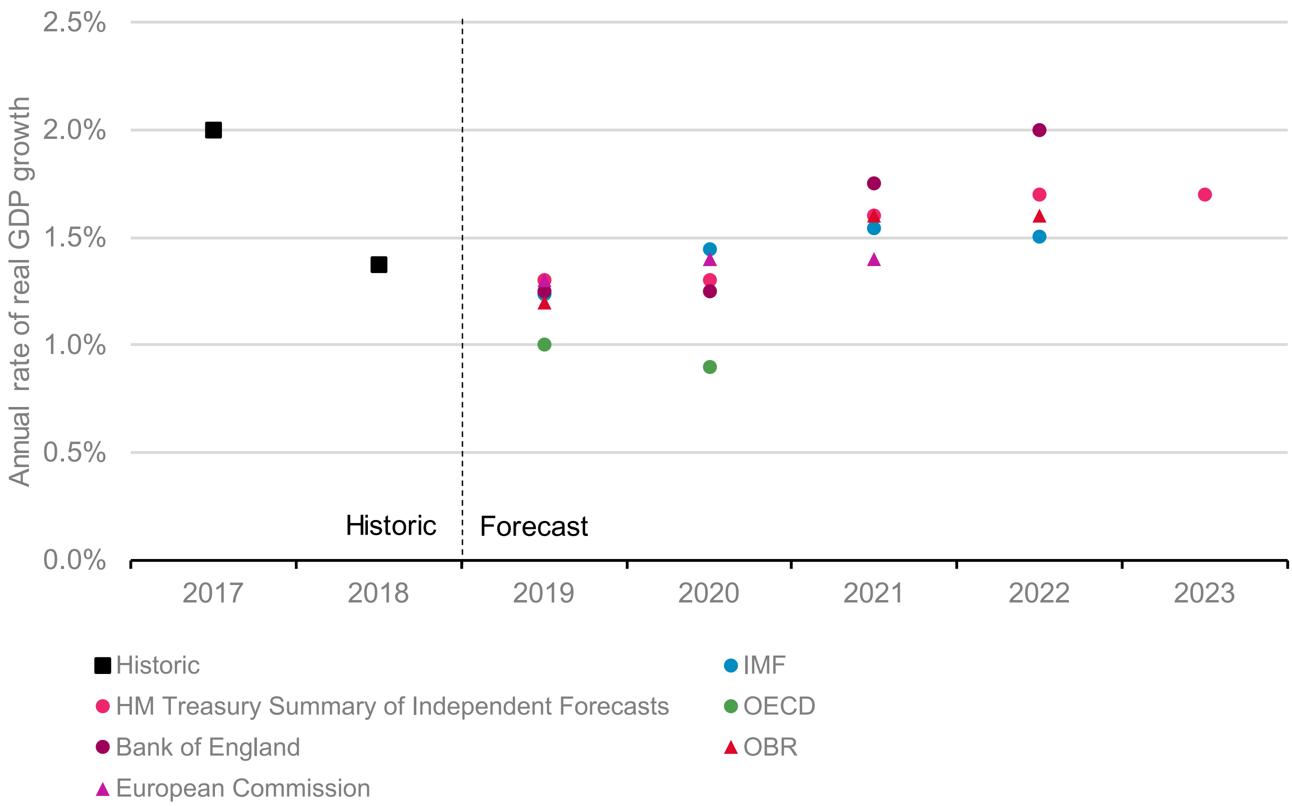
Forecasts of the UK economy

Forecasts suggest that the UK economy will continue growing, although at a relatively modest rate, over the next couple of years, though different organisations take different views on the expected growth trajectory. Most of these differences can be linked to different interpretations of the impacts of Brexit, inflation, productivity and global factors like the disruption caused by trade disputes and general global economic sluggishness. For example, some of the impact of Brexit is dependent on whether the UK can secure trade deals with other countries and/or roll over existing EU trade deals. An update on the progress of Brexit so far is presented in Box 3.2, while the other risks to the forecasts are discussed in greater detail in Section 3.4.

[33] It also includes net trade in goods and services.

Acknowledging the above, Figure 3.10 shows the range of forecasts for real UK GDP growth. This includes the International Monetary Fund's (IMF) forecast which in the October edition of the World Economic Outlook expects GDP growth of 1.2% in 2019, followed by 1.4% in 2020 (both unchanged from April)[34]. It also includes the HM Treasury's summary consensus forecast for the UK economy based on research from a variety of organisations. From this, the latest average forecast is for growth of 1.2% in 2019 and 1.0% in 2020[35], so continuing the slowdown observed over the last two years[36]. Meanwhile, the Office for Budget Responsibility (OBR) in their most recent forecast in March lowered their forecast of UK GDP growth for 2019 from 1.6% to 1.2%, though they then expect the rate of expansion to pick up to 1.4% in 2020 before hitting 1.6% in 2021 and 2022[37].

Figure 3.10: Forecasts of real UK GDP growth



Source: ONS (2019), '[GDP first quarterly estimate, UK: July to September 2019](#)', May 2019; IMF (2019), '[World Economic Outlook: Growth Slowdown, Precarious Recovery](#)' October 2019, HM Treasury (2019), [Forecasts for the UK economy: a comparison of independent forecasts](#)', August 2019; OECD (2019), '[Economic Outlook](#)', September 2019; Bank of England (2019), '[Monetary Policy Report](#)', November 2019; OBR (2019), '[Economic and fiscal outlook](#)', March 2019; and European Commission (2019), '[Autumn 2019 Economic Forecast: A challenging road ahead](#)', November 2019.

The OBR and HM Treasury also publishes forecasts for other variables like the labour market and public-sector net borrowing (PSNB). These are shown in Table 3.3. (In September, the ONS implemented methodological changes to the reporting of public sector finances[38], notably the treatment of student loans, and this accounts for the large difference in the estimates of forecasts for public sector new borrowing).

[34] IMF (2019). 'World Economic Outlook: Growth Slowdown, Precarious Recovery', April 2019.
[35] HM Treasury (2019). 'Forecasts for the UK economy: a comparison of independent forecasts', October 2019.
[36] The forecast in Figure 3.12 is from August, the latest month for which there is a five year forecast horizon.
[37] Office for Budget Responsibility (2019). 'Economic and fiscal outlook'. March 2019.
[38] ONS (2019). 'Public sector finances, UK', 24 September 2019

Table 3.3: Selected OBR and HM Treasury consensus forecasts for the UK economy

	HM Treasury's Average of Independent Forecasters (October 2019)		Office for Budget Responsibility (March 2019)	
	2019	2020	2019	2020
Annual real GDP growth rate	1.2%	1.0%	1.2%	1.4%
LFS unemployment rate	3.9%	4.2%	4.1%	4.1%
Current account	-£93.4bn	-£87.0bn	-	-
Public sector net borrowing (financial year)	£41.9bn	£43.2bn	£29.3bn	£21.2bn

Sources: HM Treasury (2019), Forecasts for the UK economy: a comparison of independent forecasts', November 2019; and OBR (2019). 'Economic and fiscal outlook', March 2019.

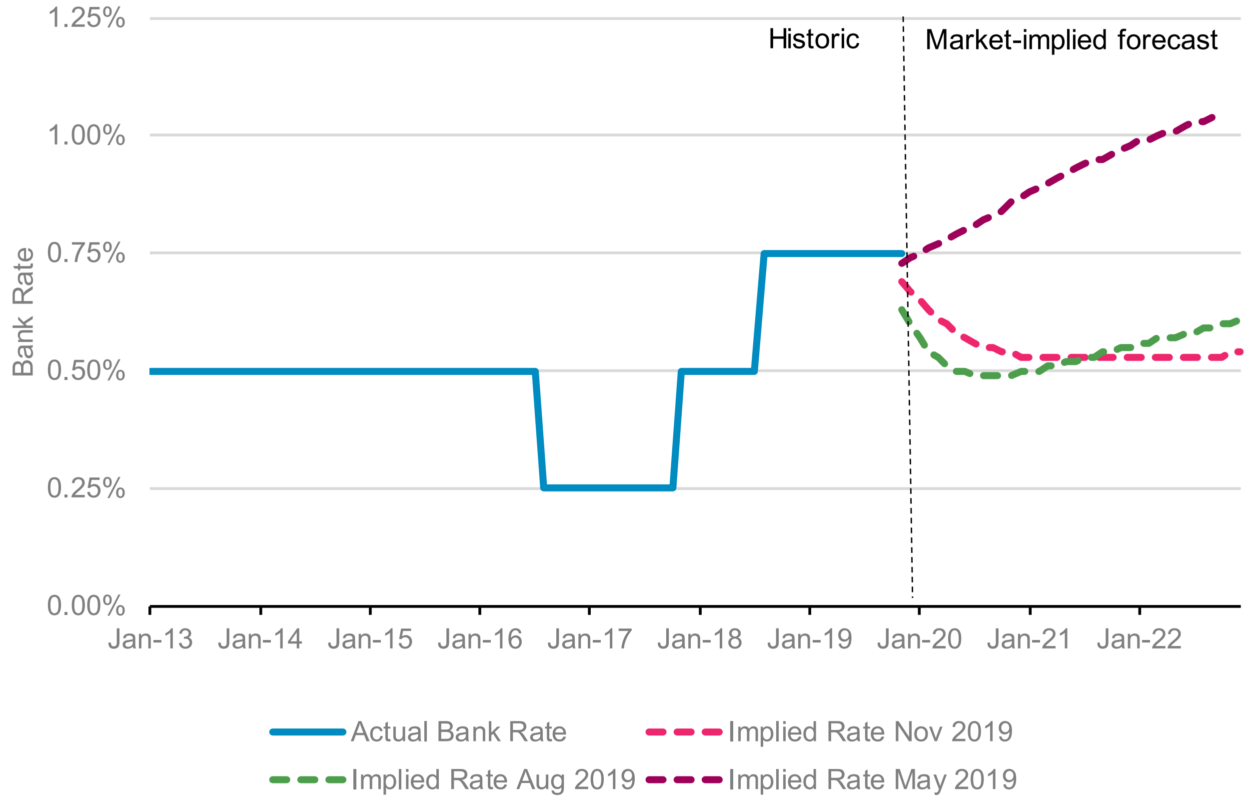
Other UK economic indicators

Beyond GDP, another important economic indicator is inflation as measured by the Consumer Price Index (CPI). Inflation, having been above the Bank of England's central symmetrical target of 2% since February 2017 in part due to the large depreciation of sterling following the EU referendum making the price of imported goods and services more expensive, has fallen back in 2019. This decline in inflation was expected as the pickup in inflation from 2017 was anticipated to be short-lived as the sterling-related price increases worked its way through the economy. This indeed does seem to have now happened with CPI inflation standing at 1.5% in October 2019[39] and having been at or below the target level since December 2018. The Bank thinks that CPI inflation "is expected to decline to around 1¼ by the spring, owing to the temporary effect of falls in regulated energy and water prices."[40] Further out, inflation is expected to pick up. "It is supported by rising excess demand, which leads to stronger domestic inflationary pressures. Wage growth is projected to be around 3¾% over the second half of the forecast period [to 2022], supported by low unemployment."

In part given low inflation expectations, the sluggishness of the economy and uncertainty of the economic outlook, the Bank has not raised interest rates since August 2018 when rates were raised 0.25 percentage points to 0.75%. This was the second rise in interest rates since the financial crisis of the 2000s. There continues to be some speculation on further interest rate rises although these in part are dependent on the outcome of Brexit. If growth stays weak, though, interest rates could fall. The Bank in its latest Monetary Policy Report noted that, "monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target" [41]. While there is a mixed picture, some commentators and the markets are currently expecting further interest rate reductions in the coming years (Figure 3.11).

[39] ONS (2019). 'Consumer price inflation, October 2019', November 2019.
[40] Bank of England (2019). 'Monetary Policy Report', November 2019.
[41] Ibid.

Figure 3.11: Market-implied interest rate path for the UK



Source: Bank of England (2019). '[Monetary Policy Report](#)', November 2019

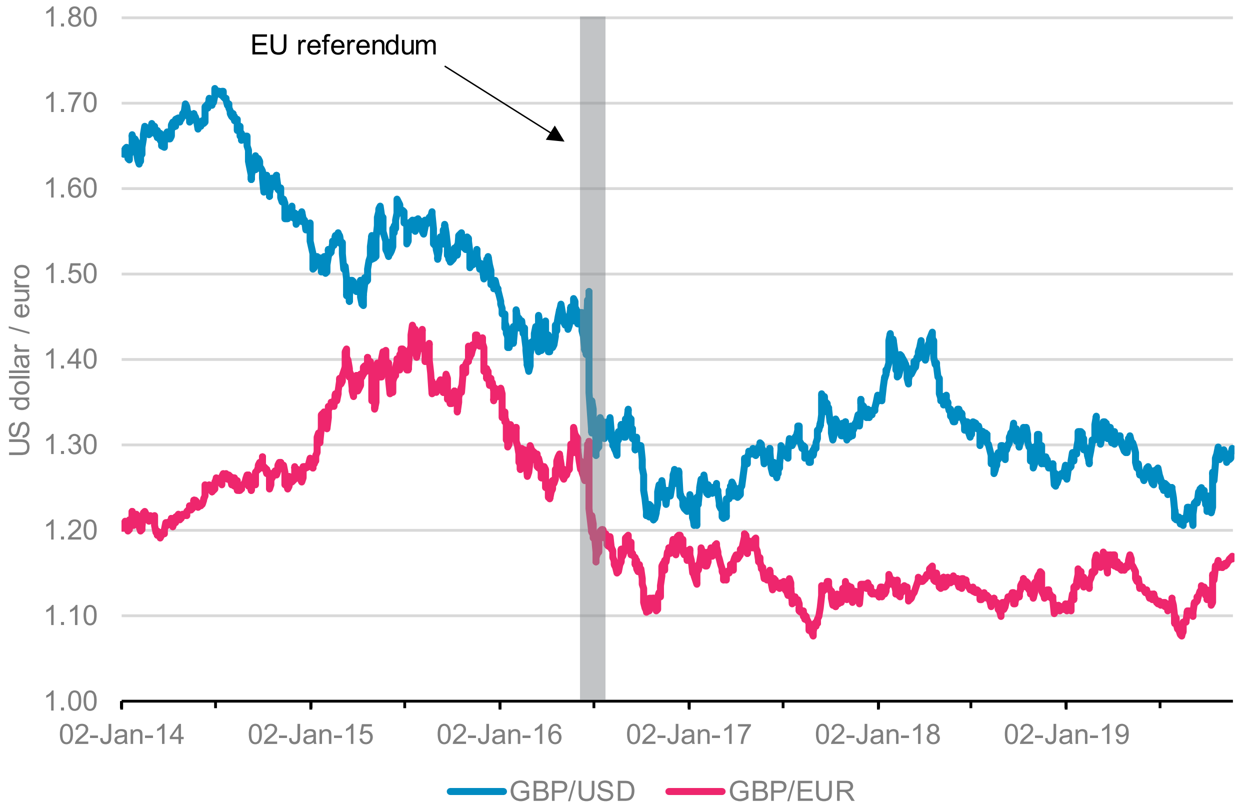
Interest rate changes can have several influences on the economy[42]. All other things held constant, rises can bolster sterling as returns (interest) on sterling would be relatively higher than other countries leading to an increase in demand for sterling-based assets by foreigners. They can also reduce consumer demand as higher interest on savings raises the 'opportunity cost' of spending. Likewise, it can reduce the appetite to invest and borrow as the cost in terms of debt interest would be higher. It can thus slow the rate of inflation and negatively affect the rate of economic growth in the short-run through the combined effect of weaker demand for goods and services. Lowering interest rates would have the reverse of these effects. However, the magnitude of these effects will be dependent on several factors – i.e. the speed and scale of the interest rate changes, the time it takes for interest rates to work through the transmission mechanism, and the current state of the wider economy – and therefore provides some further uncertainty to economic forecasts. It should also be noted that interest rates in the UK remain at historically very low levels and any changes in rates are expected to be slow and limited, indicating that the dampening effect of interest rates on the UK in the near term is likely to be limited.

It has already been noted that the value of sterling fell following the result of the EU referendum in June 2016 and this is shown in Figure 3.12. Sterling has been relatively steady against the Euro since mid-2017, although there have been marked down and then upward movements in the last six months as first a no-deal Brexit became more likely, and then a deal became more likely. At the same time, sterling appreciated against the US dollar through 2017 and into the early part of 2018 but has since dropped back largely due to continuing Brexit uncertainty (see Box 3.2). There have been movements similar to those for the Euro in the last six

[42] For more information, see Bank of England (1999). 'The transmission mechanism of monetary policy', Bank of England Quarterly Bulletin, May 1999.

months. With sterling being relatively stable compared to 2016, it is unlikely that these fluctuations could either boost or subdue exports by making UK goods and services cheaper/more expensive.

Figure 3.12: Sterling to US dollar and euro exchange rates
Last data point is 19 November 2019



Source: Bank of England

Overall, the first estimate of UK GDP growth in Q3 2019 was one of the weakest rates seen since the EU referendum. And, low growth is expected to continue over the forecast horizon. This is conditional on the avoidance of a no deal Brexit, while agreeing a deal would reduce some of the uncertainty facing business (see Box 3.2) and be a spur to higher investment and growth.

Box 3.2: An update on Brexit

This box provides an update on the process to establish a new policy framework after Brexit, and its economic impact so far. This follows the updates included in the six previous editions of LEO[43, 44, 45, 46, 47,48] and so covers the period since June 2019.

For a fuller discussion, GLA Economics has published an assessment of The economic impact of Brexit on London[49] which covers the macroeconomic impacts more fully, and considers the impacts on businesses, migrants and visitors, and households.

1 New policy framework after Brexit

a) Political discussions in the UK, and with the European Union

The UK Government and the European Commission published[50] on 14 November 2018 a draft Withdrawal Agreement for the UK to leave the European Union. Revisions to this agreement were published[51] on 17 October 2019. This covers citizens' rights of Britons residing in the EU and vice versa, a financial settlement and arrangements for the border between Northern Ireland and the Republic of Ireland.

While the agreement was ratified by the European Council it has not been ratified by the UK Parliament. The bill did pass its second reading in the House of Commons but did not proceed further. Instead, Parliament legislated to hold an election on 12 December. To put off the risk of a disorderly exit from the EU, the UK Government also requested a second extension of the Article 50 process, and UK membership of the EU has been extended to the end of January 2020.

If the agreement between the UK Government and the European Commission is ratified in some form by the end of January, there will be further negotiations on the future relationship between the two parties, including trading relationships. The current deadline for successful completion of these talks has not changed, and still is the end of 2020. The European Commission has, though, offered to extend this deadline to the end of 2022. Otherwise the UK will face a no-deal exit. In addition to any short-term disruption and uncertainty associated with leaving the EU without a defined legal framework for governing post-Brexit relationships, trade with the EU would only happen on the basis of World Trade Organisation (WTO) rules. This would reduce trading opportunities with the EU due to higher tariff and non-tariff barriers.

[43] GLA Economics (2016). 'London's Economic Outlook: Autumn 2016 The GLA's medium-term planning projections', November 2016.
[44] GLA Economics (2017). 'London's Economic Outlook: Spring 2017 The GLA's medium-term planning projections', June 2017.
[45] GLA Economics (2017). 'London's Economic Outlook: Autumn 2017 The GLA's medium-term planning projections', November 2017.
[46] GLA Economics (2018). 'London's Economic Outlook: Spring 2018 The GLA's medium-term planning projections', May 2018.
[47] GLA Economics (2018). 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', November 2018
[48] GLA Economics (2019). 'London's Economic Outlook: Spring 2019 The GLA's medium-term planning projections', June 2019
[49] Hope, M. (2019). 'The economic impact of Brexit on London'. GLA Economics
[50] European Commission (2018). 'Draft Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community, as agreed at negotiators' level on 14 November 2018', November 2018.
[51] European Commission (2019), 'Working document - Consolidated version of the Withdrawal Agreement following revision of the Protocol on Ireland/Northern Ireland and technical adaptations to Articles 184 and 185, as agreed at negotiators' level and endorsed by the European Council', October 2019

2 Economic impact of Brexit

a) Longer-term impact of withdrawal agreements

There have been a number of studies of the economic impact on the UK economy of alternative Brexit outcomes. A significant economic difference between the current EU-UK Government deal and the previous deal is that Great Britain will have no customs union for the free movement of goods with the EU. Recent research[52] indicates that this may have a different economic impact compared with the previous deal between the EU and UK Government, (Table 3.4). Further, the deal allows for regulatory standards to diverge between the two economies and will give the UK Government more freedom to strike its own trade agreements. It is not, though, expected that the benefits of any such deal will be comparable to a customs union with the EU, or indeed membership of the EU Single Market, because of the importance of the EU to UK trade.

Table 3.4: Impact on UK GDP per capita ten years after Brexit of EU-UK Government deals and no-deal compared with remaining in the EU, range of estimates

	UK in a Changing Europe		NIESR
	lower bound	upper bound	
previous deal	-1.9%	-5.5%	-3.0%
current deal	-2.3%	-7.0%	-3.5%
no-deal Brexit	-3.5%	-8.7%	-5.6%

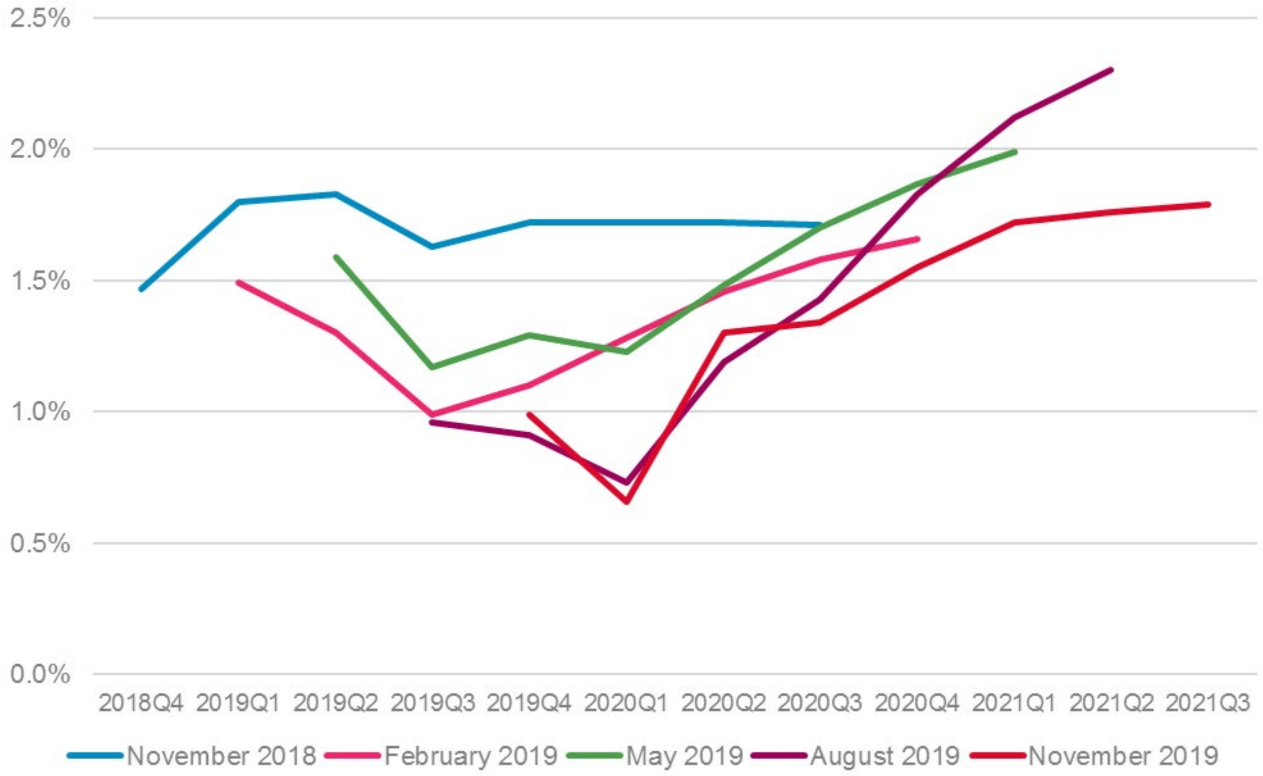
Source: UK in a Changing Europe - The economic impact of Boris Johnson's Brexit proposals and *NIESR: The Economic Impact of Prime Minister Johnson's New Brexit Deal*

b) Economic impact of uncertainty in the Brexit process

A third extension to the UK's membership of the EU has prolonged the uncertainty around the timing of the UK's departure from the EU, and the vagueness about what future trading, and migration, relationships might be. Although, as yet, there have been no legal changes in the relationship between the two parties the rate of output growth for London and the UK has been declining since the EU Referendum in June 2016. The impact of the ongoing ambiguity (as well as the effects of a slowing global economy and rising global trade tensions) have been reflected in deteriorating BoE forecasts for the UK economy, (Figure 3.13).

[52] By UK in a Changing Europe and the National Institute for Economic and Social Research (NIESR)

Figure 3.13: Quarterly UK GDP growth rate estimates by vintage of BoE quarterly forecast, November 2018-November 2019



Source: Bank of England inflation reports November 2018-August 2019, and Monetary Policy Report, November 2019

The uncertainty has two forms:

- The ongoing delay around the emergence of the UK and EU's eventual relationship while the final form of the Withdrawal Agreement has not been ratified
- Declining expectations as the current form of the agreement has a worse long-term outcome for the UK than its predecessor

Expectations about the economic outlook are important for spending and investment decisions. This can weigh on investment and consumption, especially investment, and can reduce productive capacity. The wide range of potential outcomes from Brexit appears to have increased uncertainty, especially over the last year, (Figure 3.14). It seems to have lowered business investment, in particular, and may have weighed on productivity and consumption[53].

Figure 3.14: The proportion of firms that cite Brexit as one of the top three current sources of uncertainty, September 2016-September 2019

Source: BoE, Decision Makers Panel

The BoE expects that some uncertainty will be removed in the near term following recent political developments. Some uncertainty is also likely to persist as Brexit is a process rather than a single event. Uncertainty is assumed to decline gradually over the forecast period, as the details of the UK and EU's eventual relationship emerge over time. The reduction in uncertainty will support the recovery in growth in UK demand[54].

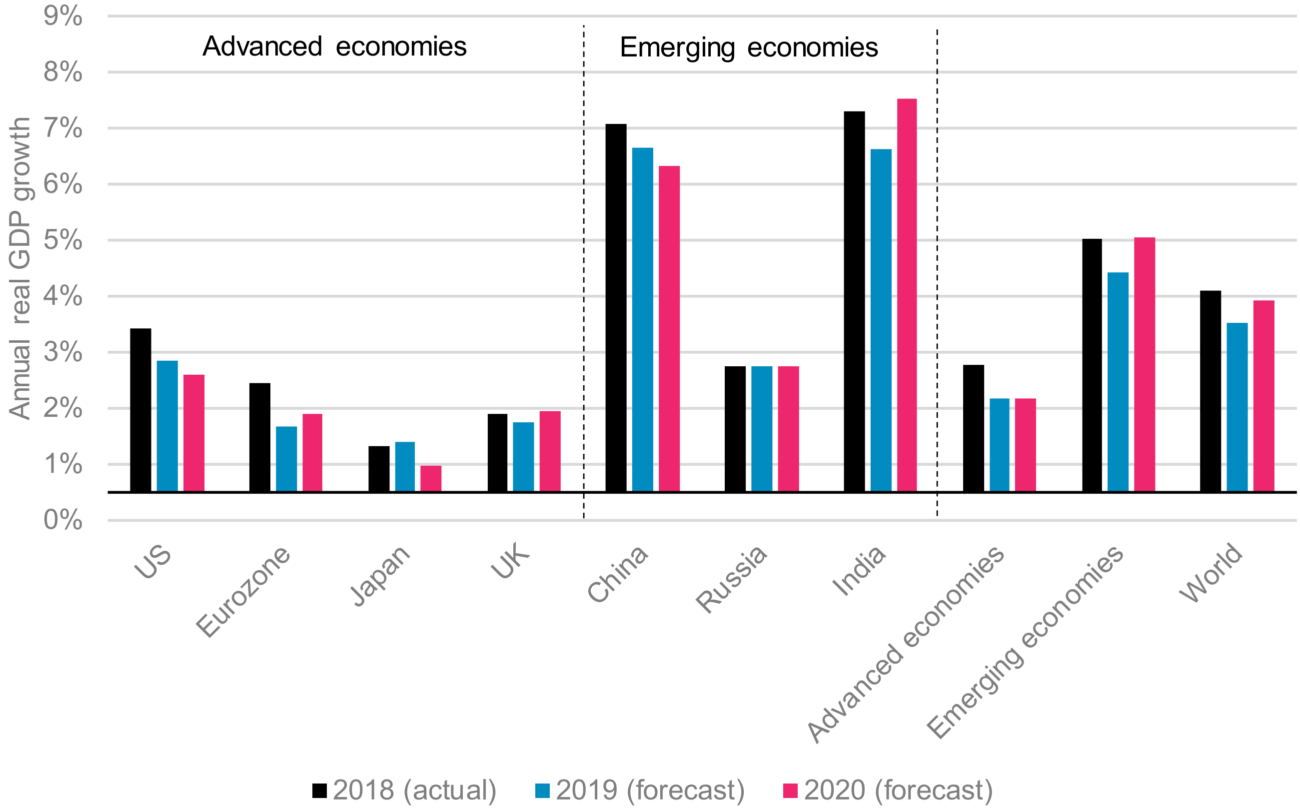
It does not follow that a reduction in uncertainty will reduce economic losses. The National Institute for Economic and Social Research (NIESR) estimated that the economy was 2½% lower in October as a result of the EU Referendum than it would otherwise have been[55]. NIESR also estimates that, in the long run, the economy would be 3½% smaller if the Government's deal with the EU is implemented compared with continued EU membership. The loss so far includes a large element for the effects of uncertainty, even though nothing as yet has formally changed in policy terms. If this deal comes into being the effects (due to Brexit) of uncertainty will evaporate but will be more than offset by the losses from reduced openness of the UK economy. This modelling assumes that reduced business investment over the last three years due to uncertainty has not permanently reduced the capacity of the economy regardless of Brexit outcome.

[53] This paragraph draws from Monetary Policy Report - November 2019 | Bank of England. For more information on trends in macroeconomic variables, see The economic impact of Brexit on London | London City Hall
[54] BoE (2019), 'Monetary Policy Report', November 2019
[55] NIESR (2019), 'Prospects for the UK economy: Forecast Summary', October 2019

3.3 The world economy

The global economy was estimated to have grown 3.6% in 2018 by the IMF. However, they note that, "rising trade and geopolitical tensions have increased uncertainty about the future of the global trading system and international cooperation more generally, taking a toll on business confidence, investment decisions, and global trade" [56]. In the latest IMF World Economic Outlook (WEO), the world economy is expected to grow at a slower rate of 3.0% this year, its lowest rate since 2008/9, before picking up again to 3.4% growth in 2020. The 2019 figure has been revised down by 0.3 percentage points since the WEO of April 2019 as the IMF believes that, "the global economy is in a synchronised slowdown". This could have been more pronounced without significant easing of monetary policy "almost simultaneously across advanced and emerging markets … [In] the absence of such monetary stimulus, global growth would be lower by 0.5 percentage points in both 2019 and 2020. This stimulus has therefore helped offset the negative impact of US-China trade tensions, which is estimated to cumulatively reduce the level of global GDP in 2020 by 0.8 percentage points." Consequently, the expected pick-up in the global economy in 2020 is precarious and uneven. "Growth for advanced economies is projected to slow to 1.7 percent in 2019 and 2020, while emerging market and developing economies are projected to experience a growth pickup from 3.9 percent in 2019 to 4.6 percent in 2020." In its latest Global Financial Stability Report[57] the IMF also observe that, "accommodative monetary policy is supporting the economy in the near term, but easy financial conditions are encouraging financial risk-taking and are fuelling a further buildup of vulnerabilities in some sectors and countries". Figure 3.15 shows the IMF economic forecasts for selected countries.

Figure 3.15: IMF forecasts of annual rate of real GDP growth for selected countries



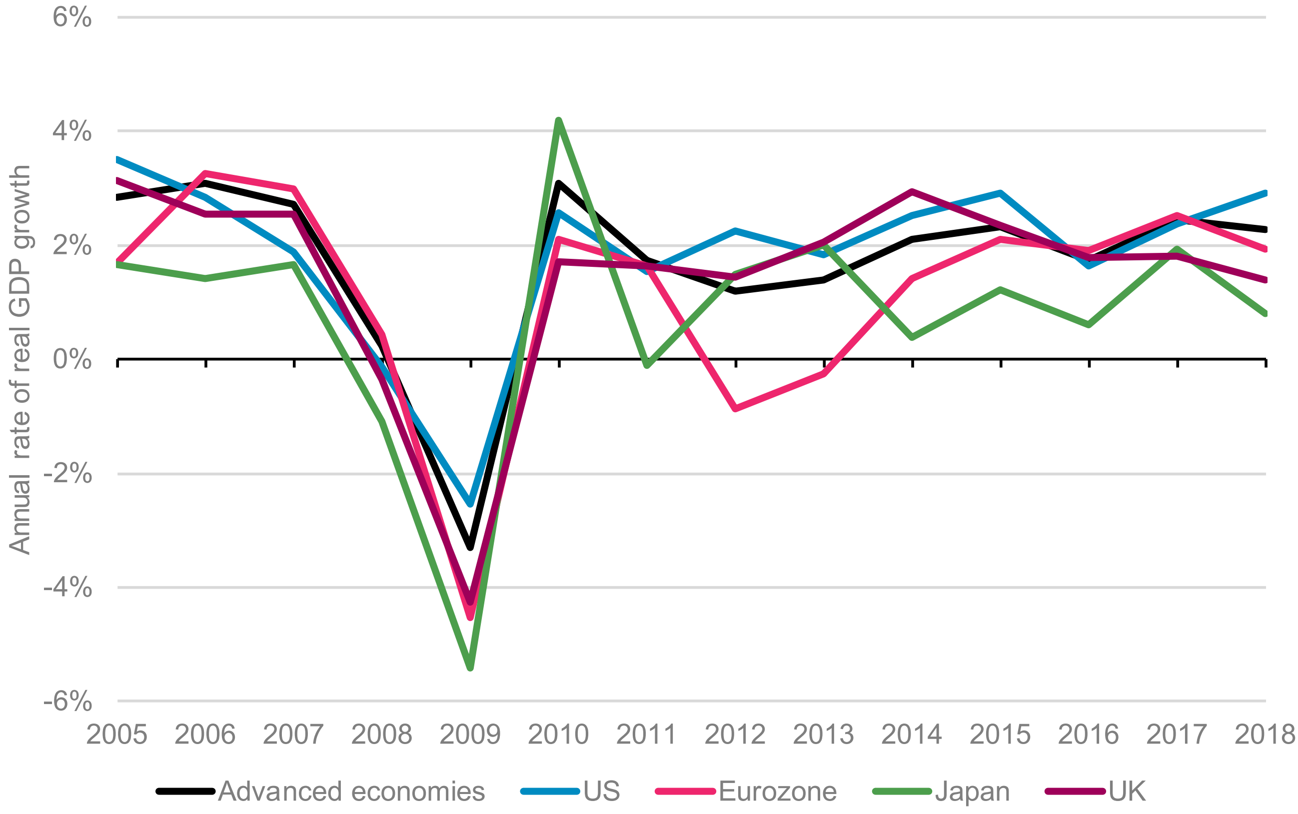
Source: IMF (2019), '[World Economic Outlook: Growth Slowdown, Precarious Recovery](#)' October 2019.

[56] IMF (2019), 'World Economic Outlook: Growth Slowdown, Precarious Recovery' October 2019.
[57] IMF (2019). 'Global Financial Stability Report: Lower for Longer', October 2019.

Advanced economies

The advanced economies collectively grew 2.3% on an annual basis in 2018, a slight slowdown on the previous year but still one of the strongest rates of growth since the financial crisis (Figure 3.16). The IMF expects growth to slow in 2019 with it dropping to 1.7% (down 0.1 percentage points on the April 2019 forecast), with it expected to remain at 1.7% in 2020 (unchanged on their April forecast). This reflects mounting economic risks for the next couple of years.

Figure 3.16: Annual rate of real GDP growth for selected advanced economies



Source: IMF (2019), '[World Economic Outlook: Growth Slowdown, Precarious Recovery](#)' October 2019.

Looking at the advanced economies in greater detail, the **US** economy grew by 2.1% year on year in Q3 2019. This follows a year on year expansion of 2.0% in Q2 2019[58]. Despite reasonable growth, the Federal Reserve has lowered interest rates for the first time since 2008. This has been by ¼ of a percentage point in each of July, September and October so that it is now between 1.5% and 1.75% - this is because business fixed investment and exports remain weak despite strong growth in household spending[59]. Looking forward, the IMF expects the US to grow 2.4% in 2019 overall and 2.1% in 2020. Compared with the IMF's April 2019 forecasts, these latest IMF forecasts have been revised upwards marginally for 2019 (by 0.1 percentage points) and also upwards (by 0.2 percentage points) for 2020. "The projected moderation reflects an assumed shift in the fiscal stance from expansionary in 2019 to broadly neutral in 2020 as stimulus from the recently adopted two-year budget deal offsets the fading effects of the 2017 Tax Cuts and Jobs Act … Revisions to past GDP data imply weaker carryover into 2019, and trade-related policy uncertainty imparts further negative effects".

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[58] BEA (2019). 'Gross Domestic Product, Third Quarter 2019 (Second Estimate)', 27 November 2019.
[59] Federal Reserve (2019). Federal Reserve Federal Open Market Committee statement, 30 October 2019.

Meanwhile, the **Eurozone's** economy continues to grow. In Q3 2019, GDP in the Zone increased by 0.2% on a quarter-by-quarter basis[60]. The growth rate was also 0.2% in Q2 2019 and compared to a year earlier the Zone's GDP was 1.2% higher. The IMF forecasts the Eurozone to grow by 1.2% in 2019 before picking up to 1.4% in 2020. The IMF notes that "weaker growth in foreign demand and a drawdown of inventories (reflecting weak industrial production) have kept a lid on growth since mid-2018. Activity is expected to pick up only modestly over the remainder of this year, and into 2020, as external demand is projected to regain some momentum and temporary factors (including new emission standards that hit German car production) continue to fade". [61] Growth rates have been marked down for many economies, notably France and Germany (due to weaker-than-expected external demand in the first half of 2019); Italy (owing to softening private consumption, a smaller fiscal impulse, and a weaker external environment); and Spain.

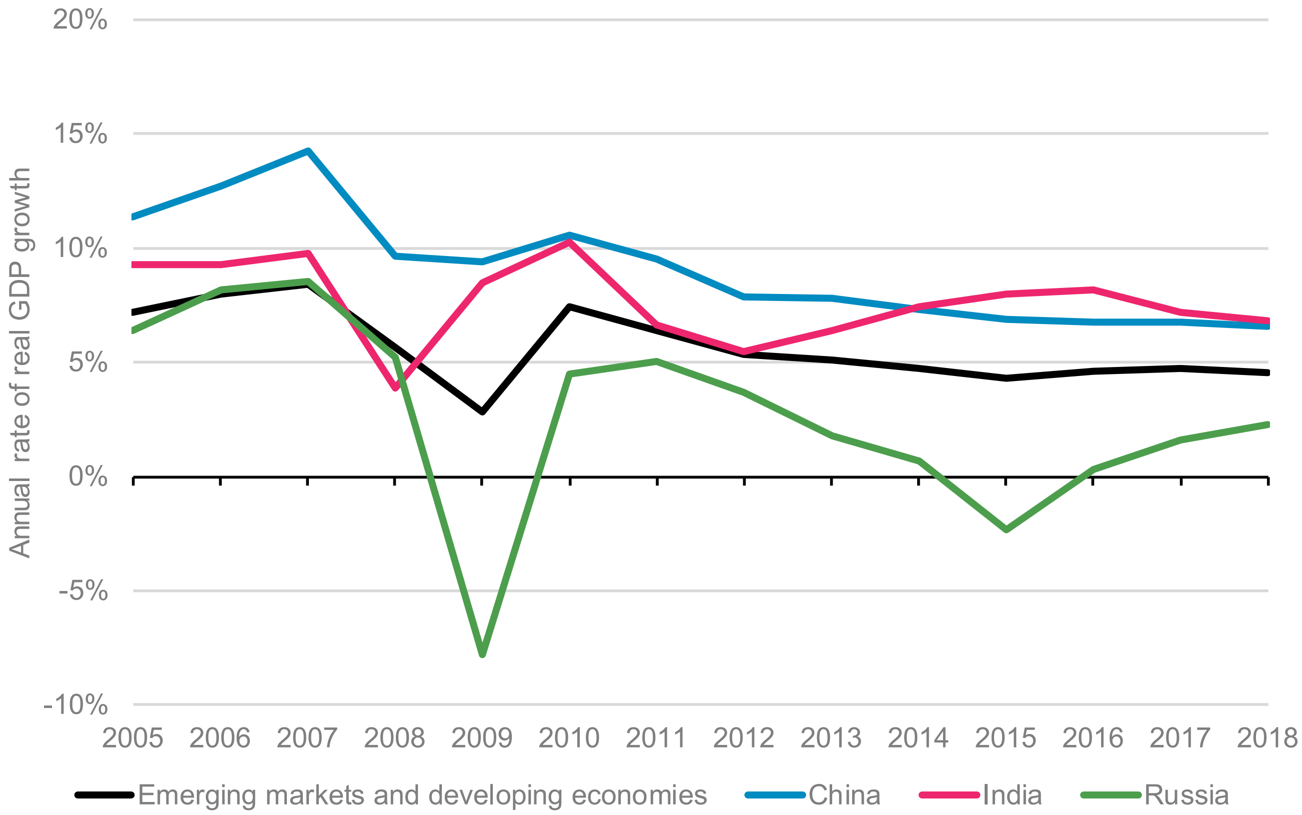
In **Japan**, the economy grew in the second quarter of 2019 by 0.1%, and by 0.2% over the previous year[62]. Looking forward, the IMF notes that "Japan's economy is projected to grow by 0.9 percent in 2019 (0.1 percentage points higher than in the April 2019 WEO). Strong private consumption and public spending in the first half of 2019 outweighed continued weakness in the external sector. Growth is projected at 0.5 percent in 2020 (unchanged from the April 2019 WEO), with temporary fiscal measures expected to cushion part of the anticipated decline in private consumption following the October 2019 increase in the consumption tax rate"[63].

Emerging market economies

Growth in the emerging market economies is expected to remain steady over the coming few years. The annual rate of real GDP growth for emerging markets and developing economies in 2018 was 4.5% (Figure 3.17). The IMF expects growth to be 3.9% in 2019 rising to 4.6% in 2020, near its rate in 2018[64].

[60] Eurostat (2019), 'GDP, Third Quarter 2019, EU and Eurozone', 14 November 2019
[61] IMF (2019), 'World Economic Outlook: Growth Slowdown, Precarious Recovery' October 2019.
[62] Ministry of Foreign Affairs of Japan, 'GDP, Third Quarter 2019, Japan', 14 November 2019
[63] IMF (2019), 'World Economic Outlook: Growth Slowdown, Precarious Recovery' October 2019.
[64] IMF (2019), 'World Economic Outlook: Growth Slowdown, Precarious Recovery' October 2019.

Figure 3.17: Annual rate of real GDP growth for selected emerging market economies



Source: IMF (2019), '[World Economic Outlook: Global Manufacturing Downturn, Rising Trade Barriers]' October 2019.

Of the major emerging markets, **China's** economy grew by 6.0% year-on-year in Q3 2019, 0.2 percentage points lower than the growth rate seen in Q2 2019[65]. The outlook for China however continues to remain uncertain due to the ongoing trade dispute with the US. The IMF expects growth to slow to 6.1% in 2019 and 5.8% in 2020 (a downgrade of 0.2 percentage points for 2019 and 0.5 percentage points for 2020 on their April forecast). The slowdown reflects "the effects of escalating tariffs and weakening external demand have exacerbated the slowdown associated with needed regulatory strengthening to rein in the accumulation of debt"[66]. This is generally in line with the forecasts by the Asian Development Bank (ADB) that expects growth of 6.2% in 2019 and 6.0% in 2020[67]. The ADB also noted that, "GDP growth is … supported by further gradual loosening of monetary policy, increased government spending including infrastructure investment, and resilient growth in the housing market".

Meanwhile, **India's** economy is estimated by the IMF to have grown by 6.8% in 2018, although growth slowed in the second three months of 2019 to an annualised rate of 5.0% down from the 5.8% growth seen in the first three months of 2019[68]. Looking forward the IMF expects that India's economy, "is set to grow at 6.1 percent in 2019, picking up to 7 percent in 2020. The downward revision relative to the April 2019 WEO of 1.2 percentage points for 2019 and 0.5 percentage points for 2020 reflects a weaker-than-expected outlook for domestic demand. Growth will be supported by the lagged effects of monetary policy easing, a reduction in corporate income tax rates, recent measures to address corporate and environmental regulatory

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[65] Source: National Bureau of Statistics of China
[66] IMF (2019), 'World Economic Outlook: Growth Slowdown, Precarious Recovery' October 2019.
[67] Asian Development Bank (2019). 'Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities', September 2019.
[68] Government of India, Ministry of Statistics and Programme Implementation (2019), available at Press Releases

uncertainty, and government programs to support rural consumption."[69]. The ADB also expects slower growth this year prior to stronger growth in 2020 – 6.5% in 2019 and 7.2% in 2020, with them noting that "expansion in the remaining quarters of FY2019 will depend on how much domestic demand grows"[70]. And, "recovery … depends on there being proactive policy interventions. Such measures should continue to aid recovery in FY2020."

In **Russia**, the economy grew by 0.8% year-on-year in Q2 2019 compared to 1.0% in Q1 2019[71]. The IMF nevertheless expects growth to continue with forecasts of 1.1% in 2019 and 1.9% in 2020.

3.4 Risks to the economy

As has been the case since the June 2016 referendum the main risk to London's economic outlook remains the UK's decision to leave the EU. Additionally, there are risks surrounding deteriorating public finances, interest rates in the UK, the strength of global economic growth and global trade flows. These are looked at in greater detail below.

The commitment of the main political parties to a Brexit deal has reduced the range of uncertainty around the path of the economy, although the different deal options would have a broad range of effects. If some form of withdrawal agreement is passed with the EU there would be further negotiations and a transition period where there would also be significant uncertainty around the UK's relationship with the EU. The uncertainty around the outcome of the process is negatively affecting the UK and London's economic growth due to its impact on business and consumer confidence. In the longer term if the UK exits the EU most economists expect that this will have a dampening effect on long-term growth compared with a baseline of EU membership, as it would increase barriers to trade.

UK fiscal policy has been loosening markedly. Over the short, medium, and long term there are reasons to increase spending to ease the pressures on a range of public services, and support the aging population. Indeed, in the 2018 Budget the UK Government announced the end of austerity. The OBR[72] in March, and prior to the 2020/21 Spending Review, estimated that the Government is on track to meet its fiscal targets. This, though, was also before the ONS changed the treatment of student loans, and is despite the OBR assuming a smooth Brexit. Further additional spending commitments have been made during the election. The UK public finances might deteriorate from unfunded commitments, or lower than expected growth of tax receipts. If this were to happen it runs the risk that the UK's debt rating could be downgraded further by international ratings agencies, which could lead to higher borrowing costs and higher interest rates. It could also have a knock-on effect on public spending and, consequently, economic growth.

Another risk to the economic outlook is in the rate of increase in UK interest rates. The Bank has an ambition to 'normalise' rates away from the current ultra-low level. While market expectations are of a fall in interest rates, and falling inflation, inflation is expected to rise over the medium term. Higher wages from a tight labour market might feed into inflationary pressures. Two large unknowns are how Brexit may be resolved, and the extent to which substantial spending promises during the election might materialise or be unfunded – both unknowns could lead to higher interest rates. On the downside, if interest rates rise too quickly, the impact on demand could dampen the rate of economic growth. However, on the upside, if interest rates rise gradually and therefore remain at historically low levels for some time, the relatively low

[69] IMF (2019), 'World Economic Outlook: Growth Slowdown, Precarious Recovery' April 2019.
[70] Asian Development Bank (2019). 'Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities', September 2019.
[71] OECD (2019), GDP and spending - Quarterly GDP - OECD Data
[72] OBR (2019), 'Economic and fiscal outlook', March 2019.

borrowing costs can encourage investment and consumption which could support the economy in the short term. Over the longer term the costs of bringing inflation under control might be higher.

In addition to these UK-level risks, there are also concerns about the strength of global economic growth. As noted in section 3.3, there was a substantial rate of global growth in 2018 and the IMF is expecting slightly slower growth in 2019 before some improvement in 2020. This can potentially support economic growth in the UK and London through higher demand for exports and positive market sentiment. It should be noted that uncertainty about future trading relationships with the EU after Brexit may be dampening sentiment. There are however other downside risks for the global economy which are discussed below. If they materialised, this could lead to the global economy expanding at a disappointing rate, which in turn could adversely affect the UK economy.

As has been highlighted for about a decade now, structural problems continue to affect the Eurozone and could reappear. The main recent development in the Eurozone has been the appointment of Christine Lagarde as President of the European Central Bank. It is not known to what extent she might wish to review its unconventional monetary policies, which have been instrumental in addressing weak growth in the Eurozone. Still, despite the risks, the Eurozone is expected to grow in the near term with its prospects remaining relatively upbeat compared to the situation seen in the first half of the decade.

Financial vulnerabilities appearing in some economies such as China also remain a concern. While the direct impact of a Chinese financial crisis on London may be limited, London's role in the global financial system means that the capital's economy could still be negatively affected indirectly. A number of other systemically important countries, including the US and UK, have large sovereign debts, where a loss of confidence might also trigger a crisis.

A further trade-related downside risk is the increasing inward-looking, protectionist policies coming from the US in particular. One consequence is a trade war with China. The emerging effects are a noticeable slowing of global growth, and a marked reduction in global trade flows.

Finally, there is a risk associated with geopolitical uncertainty. Any conflicts or sanctions have the potential to dampen or reverse country or regional growth, which in turn could have wider effects depending on how globally interconnected the relevant countries or regions are. For instance, in the news at the moment are the detrimental economic and political effects for Iran of US sanctions.

Overall (and notwithstanding these other risk factors relating to the strength of the global economy) the risks to the economic outlook for the UK and for London are dominated by Brexit and remain on the downside.

3.5 Conclusion

This chapter described the recent performance of the London, UK and world economies. It thus noted that the global economy remains relatively healthy and could promote growth in global trade flows. In turn this could benefit economies that are particularly outward looking, like the UK and London economies. However, there are downward risks to the global outlook, with threats of financial vulnerabilities in some economies and increasing protectionist policies especially by the US.

Meanwhile, the momentum in the UK economy has been slowing through 2019, and various economic forecasts expect slow growth in 2020 and 2021. This may dampen inflationary pressures, and the prospect of increases in interest rates. However, if spending plans for the public sector come to pass this would boost growth, although the scale of proposed spending may also overheat the economy leading to higher inflation, and higher interest rates.

That said the future paths of the London and UK economies have also become more uncertain due to Brexit. The prolongation of the withdrawal process increases uncertainty and so is damaging because it makes decision making harder. There remains a range of possible outcomes, which would have quite different economic ramifications if implemented.

The picture for London is generally positive. Although more mixed than in recent years the balance of indicators largely point to the London economy continuing to expand. For example, the labour market remains at a near record high, and business sentiment and consumer confidence remain marginally positive. These indicators point to further growth in the short and medium term, though probably at a subdued pace. For instance, while there is GVA growth in London, it remains slower than the average seen since the financial crisis. This outlook for London is by no means certain, however, with the main risks relating to the impact and ongoing uncertainty of Brexit.

4. Review of independent forecasts

GLA Economics' forecast of four economic indicators is provided in Chapter 5: workforce jobs, real GVA, private consumption (household expenditure) and household income in London. In this chapter the consensus view as of 9 December 2019 on the first three of these indicators is summarised[73], drawing on forecasts from outside (independent) organisations[74]. Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices). The source for the historic data on GVA and workforce jobs presented in the following tables and charts is GLA Economics modelling, which in turns relies on ONS data. The source of historic data for Household Income and Expenditure is a mixture of Experian Economics (EE) for growth rates and GLA Economics modelling using EE data for absolute levels data.

Additionally, both the consensus[75] and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- Manufacturing
- Construction
- Transportation and storage
- Distribution[76], accommodation and food service activities
- Finance and business services[77]
- Other (public & private) services[78].

It should be noted, that since our spring 2012 forecast GLA Economics has been using the new Standard Industrial Classification (SIC 2007)[79].

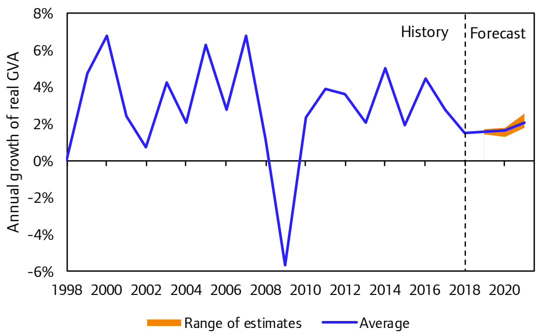
[73] The consensus forecast for GVA and employment is based on the latest available forecast from CE, CEBR, EE and OE, while the consensus forecast for household expenditure is based on the latest available forecast from CE, EE and OE only.
[74] Most forecasters do not yet provide forecasts of household income.
[75] The consensus GVA forecast for the six broad sectors is based on the latest available forecast from CE, CEBR, EE and OE for GVA but the consensus employment forecast for the six broad sectors is based on the latest available forecast from CE, EE and OE only.
[76] Distribution is made from the summation of Wholesale and Retail.
[77] Business services is made from the summation of Information and Communication, Professional, scientific and technical services and real estate, and Administrative and support service activities.
[78] This is made from the summation of Public admin and defence, Education, Health, Arts, entertainment and recreation and Other services.
[79] For more information see Appendix A of: GLA Economics (2012). 'London's Economic Outlook: Spring 2012', June 2012.

Output

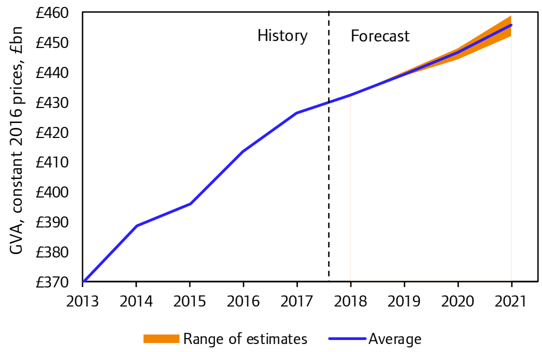
(London GVA, constant prices (base year 2016), £ billion)

The consensus (mean average view) is for real output growth to increase gradually from 1.5% in 2019 to 1.6% in 2020, and eventually to 2.1% in 2021.

Annual growth



Level (constant year 2016, £ billion)



Annual growth (%)					Level (constant year 2016, £ billion)			
	2019	2020	2021			2019	2020	2021
Average	1.5	1.6	2.1		Average	439.2	446.4	455.7
Lowest	1.4	1.3	1.8		Lowest	438.8	444.5	452.3
Highest	1.7	1.8	2.5		Highest	440.1	447.9	459.2

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.7	6.8	2.4	0.8	4.3	2.1	6.3	2.8	6.8	1.1	-5.7	2.3	3.9	3.6	2.1	5.0	1.9	4.5	3.0	1.5

History: Level (constant year 2016, £ billion)

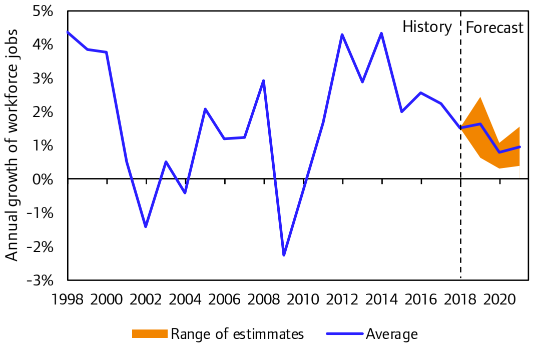
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
240.3	251.7	268.7	275.2	277.4	289.2	295.2	313.9	322.6	344.6	348.6	328.8	336.5	349.7	362.3	369.8	388.5	395.9	413.7	426.2	432.6

Employment

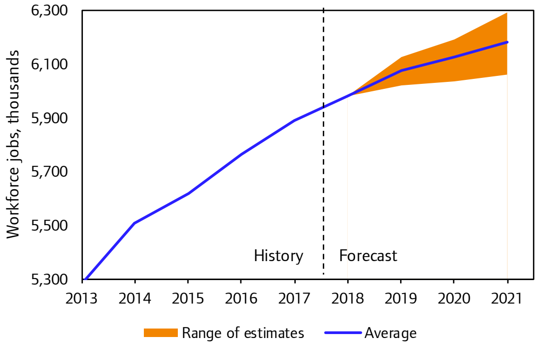
(London workforce jobs)

The consensus forecasts a generally subdued growth in the number of workforce jobs in the medium-term: 1.6% this current year, 0.8% in 2020, and 0.9% in 2021.

Annual growth



Level (constant year 2016, £ billion)



Annual growth (%)					Level (millions of persons)			
	2019	2020	2021			2019	2020	2021
Average	1.6	0.8	0.9		Average	6.08	6.12	6.18
Lowest	0.6	0.3	0.4		Lowest	6.02	6.04	6.06
Highest	2.4	1.1	1.6		Highest	6.13	6.19	6.29

History: Annual growth (%)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.4	3.8	3.8	0.5	-1.4	0.5	-0.4	2.1	1.2	1.2	2.9	-2.3	-0.4	1.7	4.3	2.9	4.3	2.0	2.5	2.2	1.5

History: Level (millions of persons)

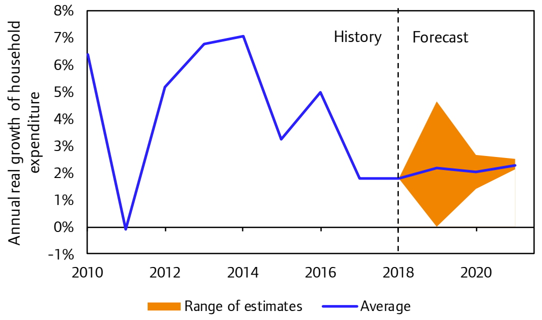
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.14	4.32	4.49	4.66	4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.89	5.98

Household expenditure

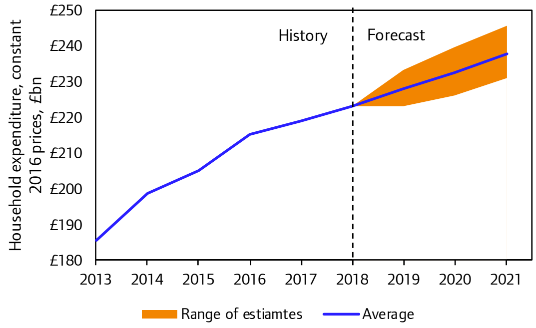
(London household spending, constant year 2016, £ billion)

The consensus view is for moderate household expenditure growth by 2.2% in 2019, by 2.0% in 2020, and by 2.3% in 2021.

Annual growth



Level (constant year 2016, £ billion)



Annual growth (%)					Level (constant year 2016 £ billion)			
	2019	2020	2021			2019	2020	2021
Average	2.2	2.0	2.3		Average	227.9	232.5	237.8
Lowest	0.0	1.4	2.1		Lowest	223.1	226.2	231.0
Highest	4.6	2.7	2.5		Highest	233.4	239.6	245.6

History[80]: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018
6.4	-0.1	5.2	6.8	7.1	3.3	5.0	1.8	1.8

History[81]: Level (constant year 2016, £ billion)

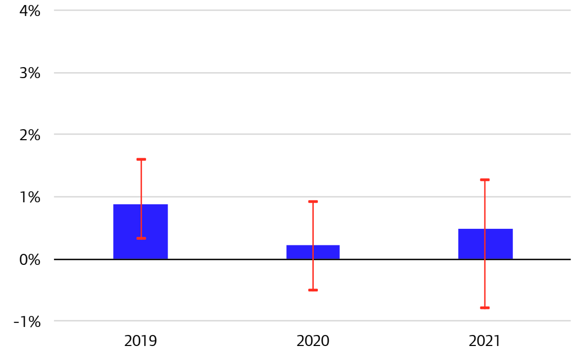
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
155.5	165.4	165.2	173.7	185.5	198.6	205.1	215.2	219.1	223.0

80, Household expenditure historic series for London are based on ONS data and start in 2009. These series were provided by Experian in previous LEO publications.
81 Ibid

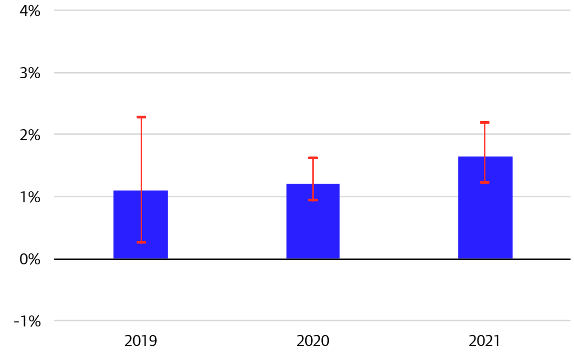
Output growth by sector (annual change)

In terms of output, the positive but subdued outlook for the whole economy can be observed at the breakdown by sectors as well, with all sectors forecast to grow over the period 2019-2021.

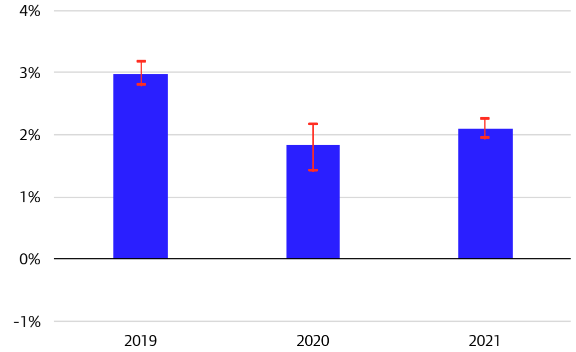
Manufacturing



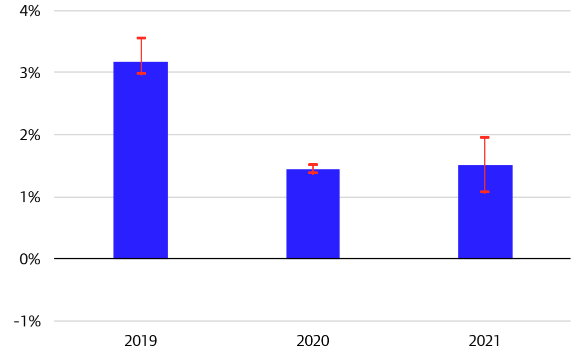
Construction



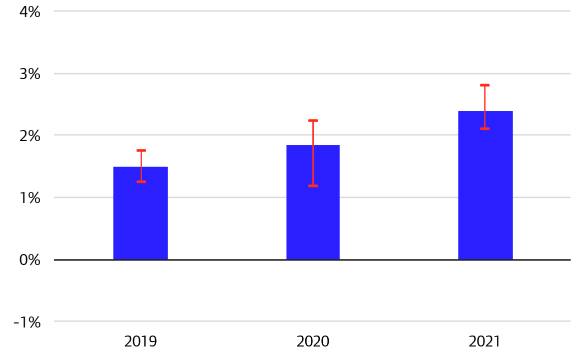
Distribution, accommodation and food service activities



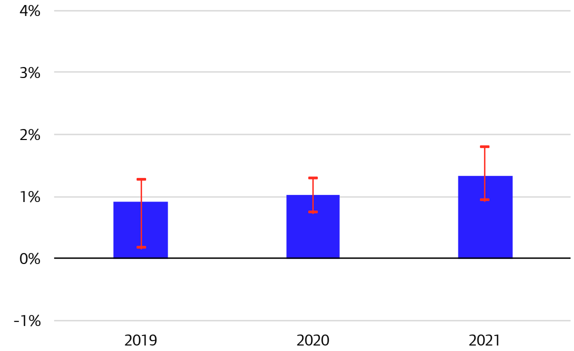
Transportation and storage



Finance and business



Other services (public and private)

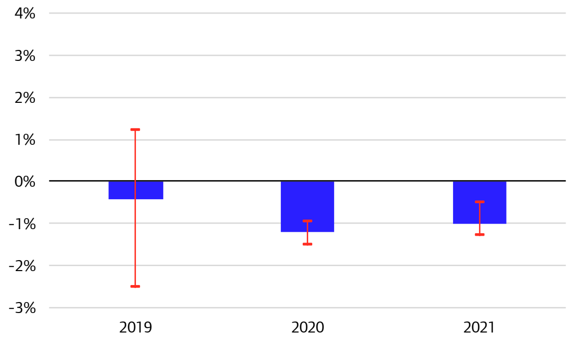


		2019	2020	2021			2019	2020	2021
Manufacturing	*Average*	0.9	0.2	0.5	**Construction**	*Average*	1.1	1.2	1.6
	Lowest	0.3	-0.5	-0.8		*Lowest*	0.3	0.9	1.2
	Highest	1.6	0.9	1.3		*Highest*	2.3	1.6	2.2
Distribution, accommodation and food service activities	*Average*	3.0	1.8	2.1	**Transportation and storage**	*Average*	3.2	1.4	1.5
	Lowest	2.8	1.4	1.9		*Lowest*	3.0	1.4	1.1
	Highest	3.2	2.1	2.2		*Highest*	3.5	1.5	1.9
Finance and business	*Average*	1.5	1.8	2.4	**Other services (public & private)**	*Average*	0.9	1.0	1.3
	Lowest	1.3	1.2	2.1		*Lowest*	0.2	0.7	0.9
	Highest	1.7	2.2	2.8		*Highest*	1.3	1.3	1.8

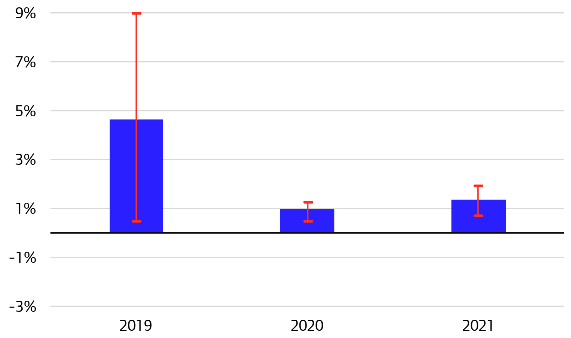
Employment growth by sector (annual change)

Most sectors are forecast to see weak increases in employment over the next three years. The exception is Manufacturing which is predicted to see a reduction in the number of workforce jobs for every year up to 2021.

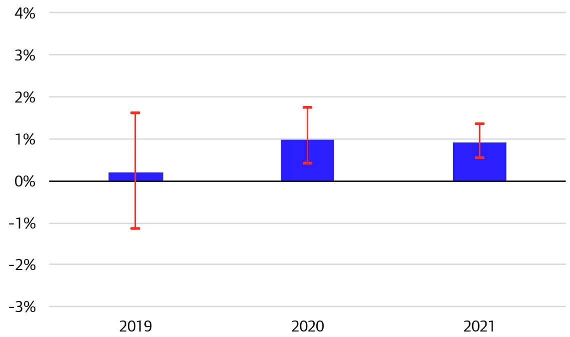
Manufacturing



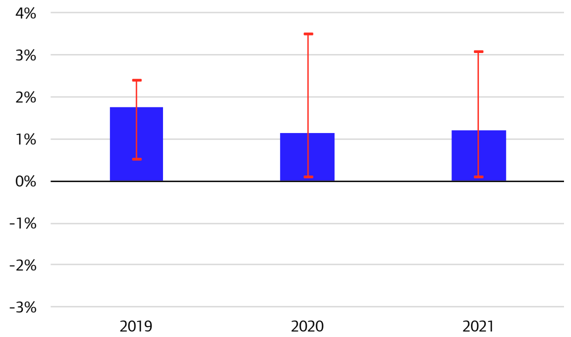
Construction



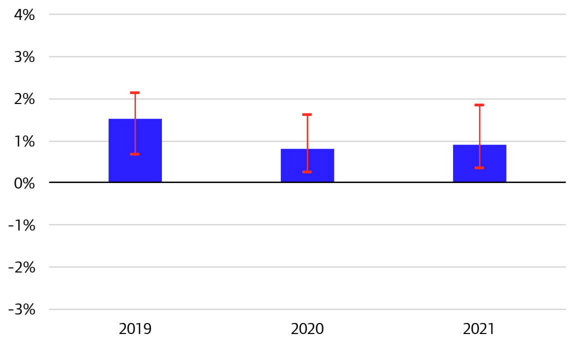
Distribution, accommodation and food service activities



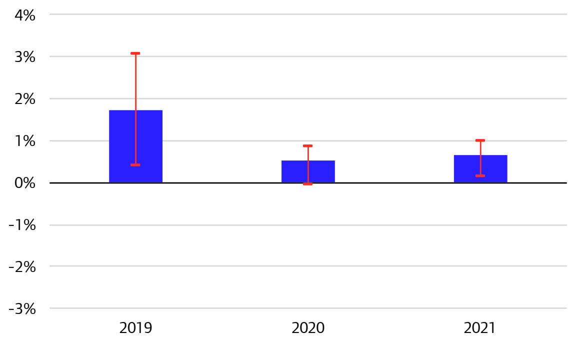
Transportation and storage



Finance and business



Other services (public and private)



		2019	2020	2021			2019	2020	2021
Manufacturing	*Average*	-0.4	-1.2	-1.0	**Construction**	*Average*	4.6	1.0	1.3
	Lowest	-2.5	-1.5	-1.3		*Lowest*	0.4	0.4	0.7
	Highest	1.2	-1.0	-0.5		*Highest*	8.9	1.2	1.9
Distribution, accommodation and food service activities	*Average*	0.2	1.0	0.9	**Transportation and storage**	*Average*	1.8	1.2	1.2
	Lowest	-1.1	0.4	0.6		*Lowest*	0.5	0.1	0.1
	Highest	1.6	1.7	1.4		*Highest*	2.4	3.5	3.1
Finance and business	*Average*	1.5	0.8	0.9	**Other services (public & private)**	*Average*	1.7	0.5	0.7
	Lowest	0.7	0.2	0.3		*Lowest*	0.4	0.0	0.1
	Highest	2.1	1.6	1.8		*Highest*	3.1	0.9	1.0

5. The GLA Economics forecast

5.1 The background

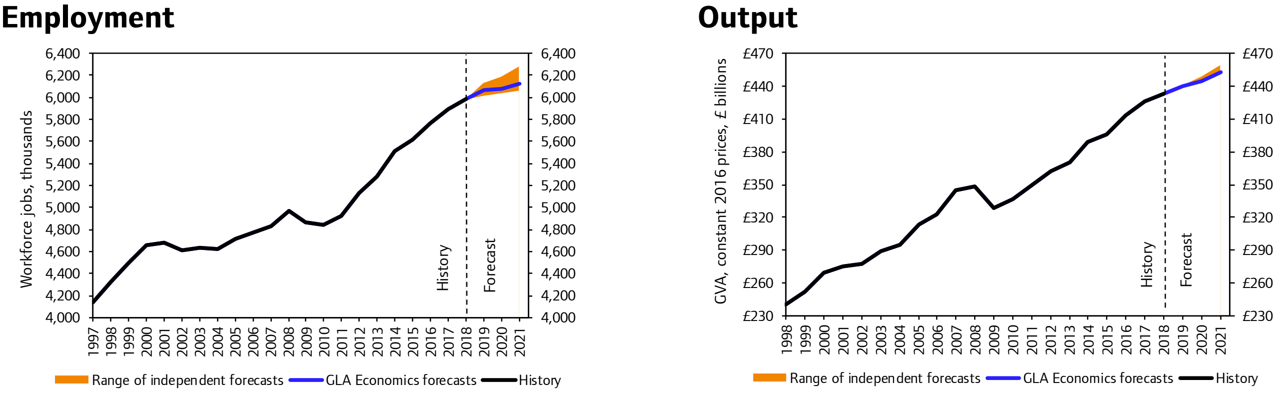
For business planning (for example, the likely course of revenue), estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections (this forecast) provide these estimates. It is thus necessary to distinguish carefully between the GLA's long-term employment projections and this forecast. Trend projections, by definition, do not incorporate cyclical variations. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points, whereas business planning requires estimates of actual numbers. As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. The source for the historic data in the following tables and charts is GLA Economics modelling using ONS data.

5.2 Results

London's economic output has been growing every year since 2010. This expansion is expected to continue over the next three years despite the current uncertainty, though at a very modest pace when compared with both recent years and historic growth rates. Employment growth is predicted to be weak in 2020 and 2021.

Household income and spending are also expected to grow notably below the historic trend.

Figure 5.1: Trend and forecast employment and output



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

Table 5.1: Forecast and historical growth rates

(Annual % change)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
GVA	2.1	5.0	1.9	4.5	3.0	1.5	1.8	1.1	1.8
Workforce jobs	2.9	4.3	2.0	2.5	2.2	1.5	1.5	0.1	0.7
Household spending	6.8	7.1	3.3	5.0	1.8	1.8	2.0	2.1	2.4
Household income	6.5	5.0	8.4	3.0	2.8	3.8	2.8	2.6	3.0

Table 5.2: Forecast and historical levels

(constant year 2016, £ billion except jobs)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
GVA	369.8	388.5	395.9	413.7	426.2	432.6	440.4	445.2	453.0
Workforce jobs (millions)	5.28	5.51	5.62	5.76	5.89	5.98	6.07	6.08	6.12
Household spending	185.5	198.6	205.1	215.2	219.1	223.0	227.5	232.2	237.8
Household income	203.8	213.9	231.9	238.8	245.6	254.8	262.0	268.7	276.7

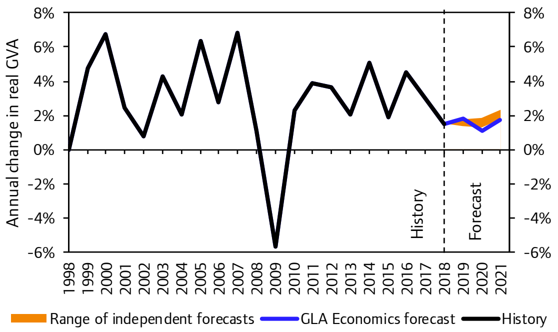
Output

(London GVA, constant year 2016, £ billion)

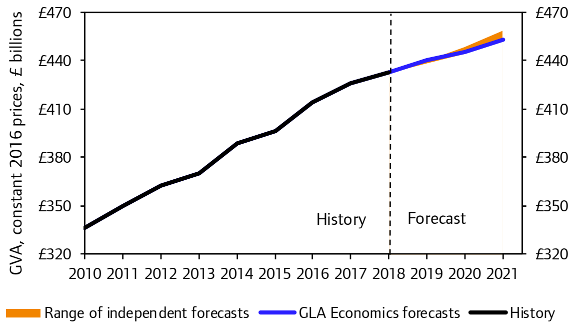
London's real GVA is forecast to grow between 2019 and 2021 at 1.8%, 1.1%, and 1.8%, respectively.

The GLA Economics' forecast is lower for the years 2020 and 2021 than the consensus average forecasts but higher for current year 2019.

Annual growth (%)



Level (constant year 2016, £ billion)



Growth (annual %)						Level (constant year 2016, £ billion)				
	2018	2019	2020	2021			2018	2019	2020	2021
GLA	1.5	1.8	1.1	1.8		GLA	432.6	440.4	445.2	453.0
Consensus		1.5	1.6	2.1		Consensus		439.3	446.4	455.7

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
4.7	6.8	2.4	0.8	4.3	2.1	6.3	2.8	6.8	1.1	-5.7	2.3	3.9	3.6	2.1	5.0	1.9	4.5	3.0	1.5

History: Level (constant year 2016, £ billion)

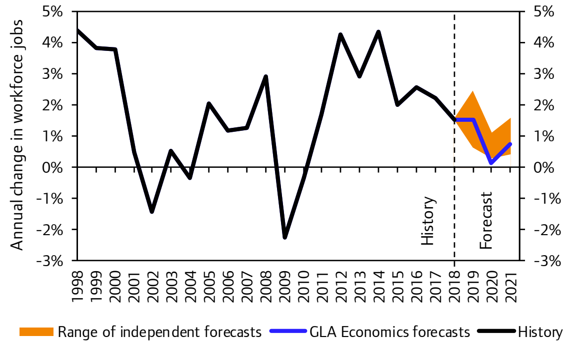
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
240.3	251.6	268.7	275.2	277.4	289.2	295.2	313.9	322.6	344.6	348.6	328.8	336.5	349.7	362.3	369.8	388.5	395.9	413.7	426.2	432.6

Employment
(London workforce jobs)

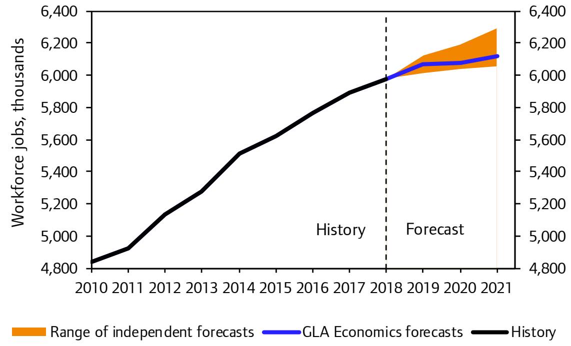
London's employment is forecast to rise moderately to weakly over the forecast period. The rates of growth are predicted at 1.5% in 2019, 0.1% in 2020, and 0.7% in 2021.

GLA Economics' forecasts for employment growth in London are lower than the consensus average forecasts for all the years.

Annual growth (%)



Level (million of workforce jobs)



Growth (annual %)						Level (millions of workforce jobs)				
	2018	2019	2020	2021			2018	2019	2020	2021
GLA	1.5	1.5	0.1	0.7		GLA	5.98	6.07	6.08	6.12
Consensus		1.6	0.8	0.9		Consensus		6.08	6.12	6.18

History: Annual growth (%)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
3.8	3.8	0.5	-1.4	0.5	-0.4	2.0	1.2	1.2	2.9	-2.3	-0.4	1.7	4.3	2.9	4.3	2.0	2.5	2.2	1.5

History: Level (millions)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**2018**
4.32	4.49	4.66	4.68	4.62	4.64	4.62	4.72	4.77	4.83	4.97	4.86	4.84	4.92	5.13	5.28	5.51	5.62	5.76	5.89	5.98

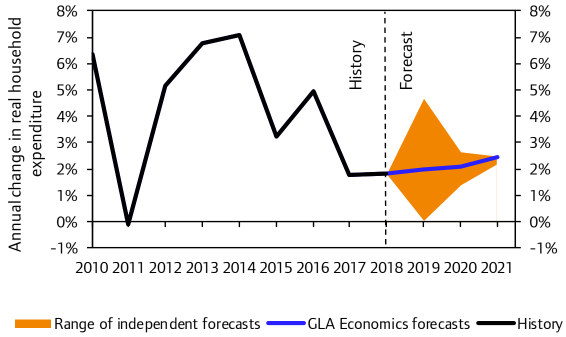
Household expenditure

(London household spending, constant year 2016, £ billion)

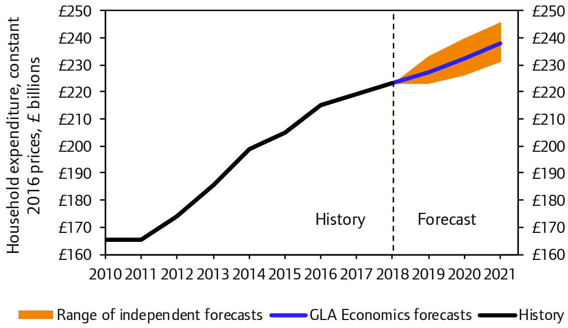
Growth in London's household spending is forecast to be below historic rates over the forecast period, 2.0% in 2019, 2.1% in 2020, and 2.4% in 2021.

GLA Economics' household spending growth forecast is broadly in line with the consensus average for the years 2019, 2020, and 2021.

Annual growth (%)



Level (constant year 2016, £ billion)



Growth (annual %)						Level (constant year 2016, £ billion)				
	2018	2019	2020	2021			2018	2019	2020	2021
GLA	1.8	2.0	2.1	2.4		GLA	223.0	227.5	232.2	237.8
Consensus		2.2	2.0	2.3		Consensus		227.9	232.5	237.8

History[82]: Annual growth (%)

2010	2011	2012	2013	2014	2015	2016	2017	2018
6.4	-0.1	5.2	6.8	7.1	3.3	5.0	1.8	1.8

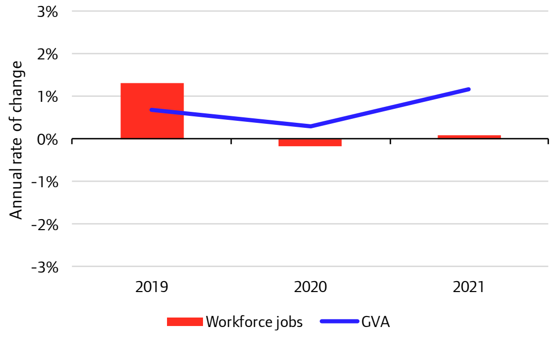
History[83]: Level (constant year 2016, £ billion)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
155.5	165.4	165.2	173.7	185.5	198.6	205.1	215.2	219.1	223.0

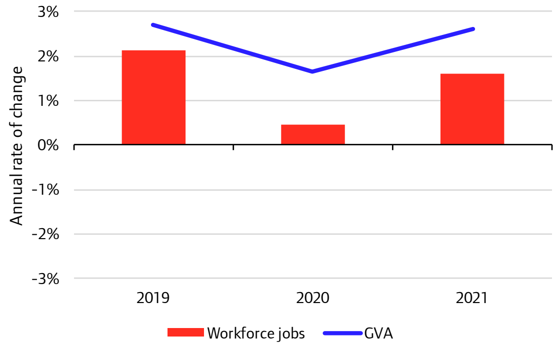
[82] Household expenditure historic series for London are based on ONS data and start in 2009. These series were provided by Experian in previous LEO publications.
[83] Ibid

Output and employment growth by sector (% annual changes)

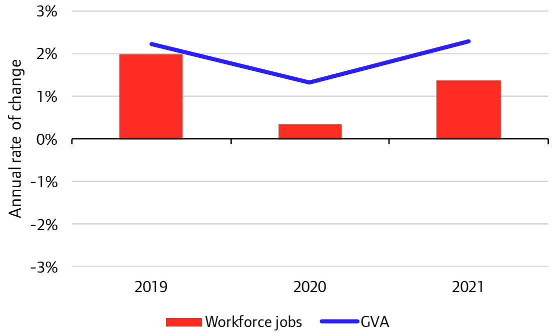
Financial services



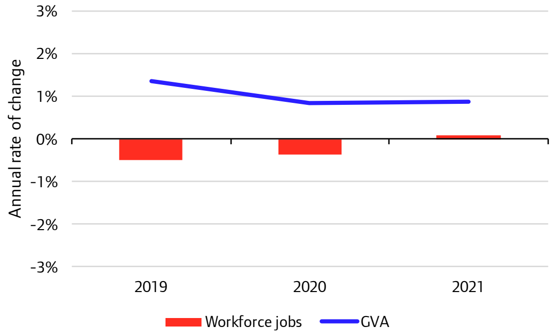
Business services



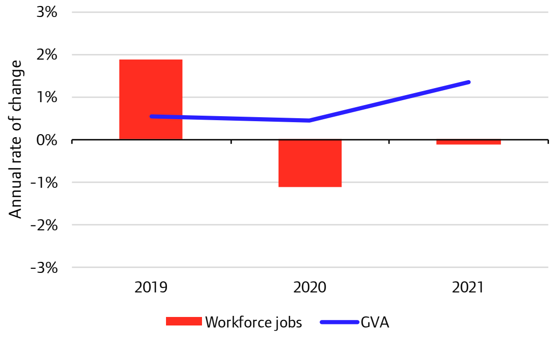
Finance and business (combined)



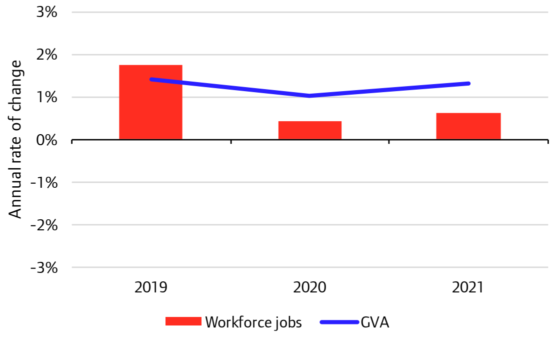
Distribution, accommodation and food service activities



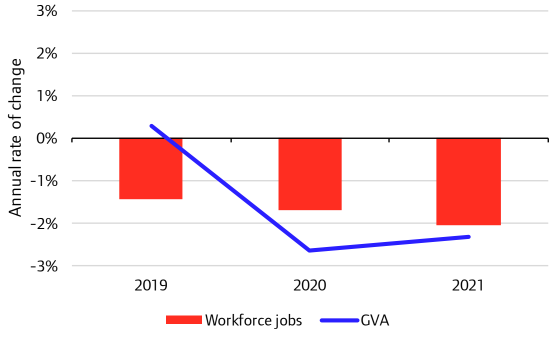
Transportation and storage



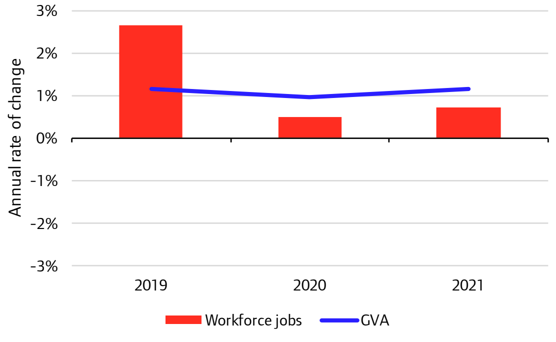
Other (public & private) services



Manufacturing



Construction



Output and employment growth by sector (% annual change)

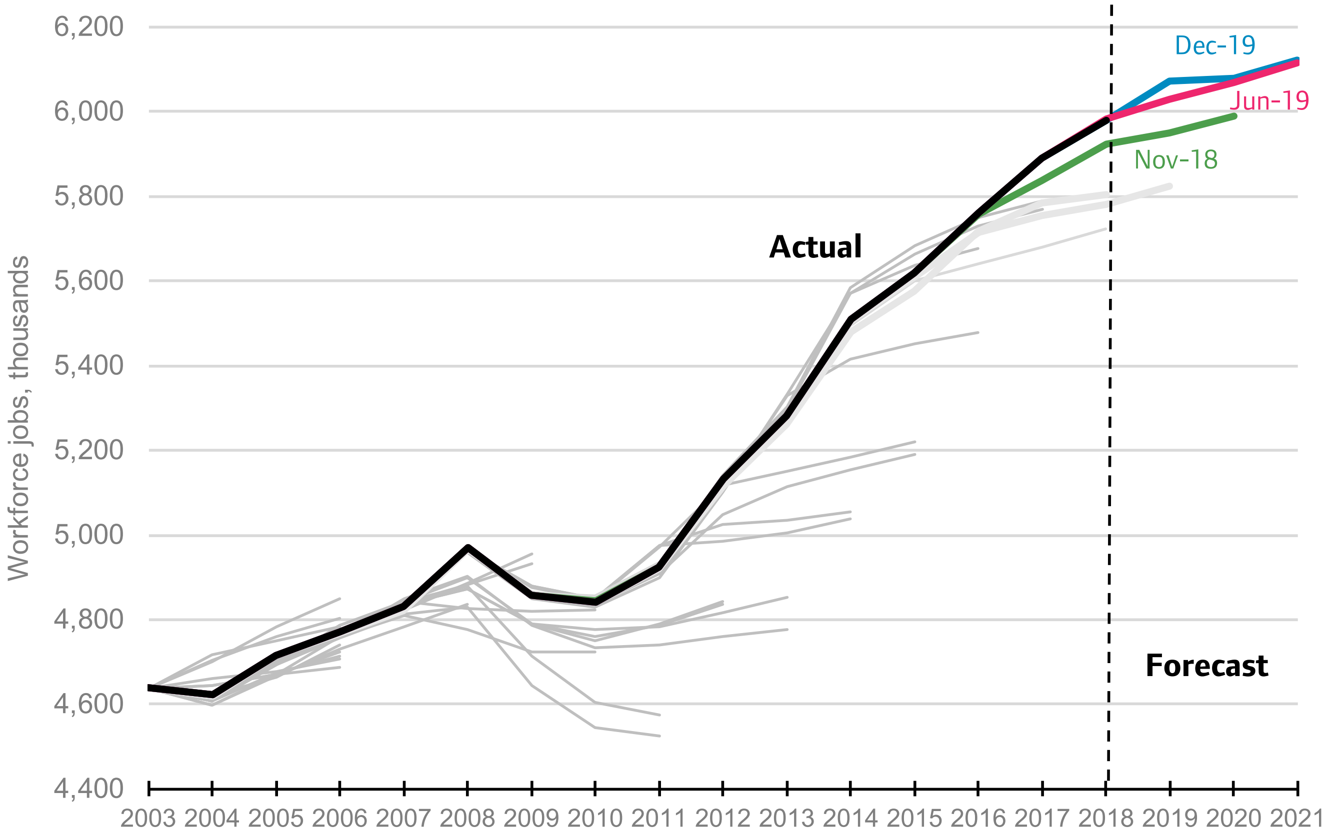
	2019	2020	2021
Financial services			
Output	0.7	0.3	1.2
Employment	1.3	-0.2	0.1
Business services			
Output	2.7	1.6	2.6
Employment	2.1	0.4	1.6
Financial and business services combined			
Output	2.2	1.3	2.3
Employment	2.0	0.3	1.4
Distribution, accommodation and food service activities			
Output	1.4	0.8	0.9
Employment	-0.5	-0.4	0.1
Transportation and storage			
Output	0.6	0.5	1.3
Employment	1.9	-1.1	-0.1
Other (public & private) services			
Output	1.4	1.0	1.3
Employment	1.8	0.4	0.6
Manufacturing			
Output	0.3	-2.6	-2.3
Employment	-1.4	-1.7	-2.0
Construction			
Output	1.1	0.9	1.2
Employment	2.6	0.5	0.7
(Memo: non-manufacturing)			
Output	1.8	1.1	1.8
Employment	1.6	0.2	0.8

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.

For the whole forecast period (2019-2021), the most recent GLA Economics forecast for the level of London's workforce jobs is slightly higher than the June 2019 forecast. In terms of the annual growth rate, the most recent forecast is higher for this year but notably lower for 2020 when compared to the previous GLA Economics estimates. The forecast for 2021 remains broadly the same.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(millions of workforce jobs)



Note: the grey lines show levels of employment given historic GLA Economic forecasts of employment growth rates. The last three GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 5.3[84]: Comparisons with previous published forecasts
(London workforce jobs, % annual growth)

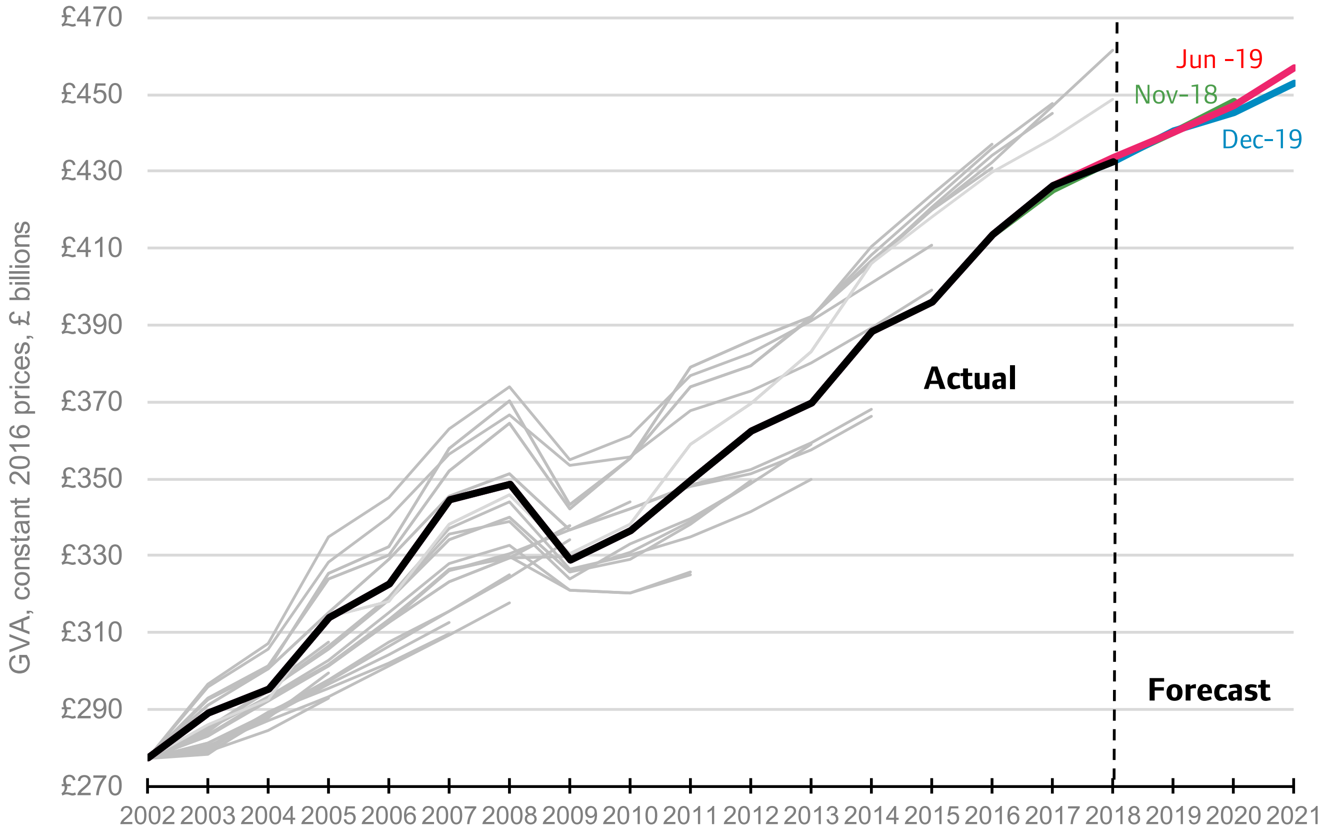
Forecast	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Dec 2019	**1.2%**	**2.9%**	**-2.3%**	**-0.4%**	**1.7%**	**4.3%**	**2.9%**	**4.3%**	**2.0%**	**2.5%**	**2.2%**	**1.5%**	**1.5%**	**0.1%**	**0.7%**
Jun 2019													0.8%	0.7%	0.8%
Nov 2018												1.5%	0.5%	0.7%	
May 2018												0.6%	0.3%	0.7%	
Nov 2017											1.4%	0.3%	0.5%		
Jun 2017											0.7%	0.5%	0.7%		
Nov 2016										2.5%	1.2%	0.3%			
May 2016										0.7%	0.7%	0.7%			
Nov 2015									1.7%	1.2%	0.7%				
May 2015									1.7%	1.2%	0.7%				
Nov 2014								4.5%	1.2%	0.7%					
May 2014								1.6%	0.7%	0.5%					
Nov 2013							1.3%	0.8%	0.7%						
Jul 2013							0.6%	0.7%	0.7%						
Nov 2012						1.0%	0.2%	0.4%							
Jun 2012						0.2%	0.4%	0.6%							
Nov 2011					0.1%	0.4%	0.4%								
May 2011					0.1%	0.7%	0.8%								
Oct 2010				-0.6%	0.6%	1.0%									
Jun 2010				-0.8%	0.8%	1.1%									
Oct 2009			-3.4%	-2.3%	-0.6%										
Apr 2009			-3.8%	-2.2%	-0.4%										
Oct 2008		-0.7%	-1.1%	0.0%											
May 2008		-0.3%	-0.1%	0.1%											
Oct 2007	1.2%	0.9%	1.0%												
Apr 2007	1.2%	1.4%	1.5%												
Oct 2006	1.1%	1.1%													
Apr 2006	0.8%	1.1%													
Oct 2005	0.8%														
Apr 2005	1.1%														

Source: Various London's Economic Outlooks

[84] This table only reports forecasts for 2007 onwards unlike Figure 5.2. For earlier GLA Economics' forecasts please see previous editions of London's Economic Outlook.

The most recent medium-term forecast for London's GVA level is slightly lower than the June 2019 forecast. In terms of annual growth rates, the latest forecast revises considerably down the previous estimates for the years 2020 and 2021.

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 2016, £ billion)



Note: the grey lines show levels of GVA given historic GLA Economic forecasts of GVA growth rates. The last three GLA Economics forecasts are also shown (and labelled) in colour. Source: Various London's Economic Outlooks

Table 5.4[85]: Comparisons with previous published forecasts
(London GVA, % annual growth)

Forecast	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Dec 2019	**6.8%**	**1.1%**	**-5.7%**	**2.3%**	**3.9%**	**3.6%**	**2.1%**	**5.0%**	**1.9%**	**4.5%**	**3.0%**	**1.5%**	**1.8%**	**1.1%**	**1.8%**
Jun 2019													1.5%	1.6%	2.2%
Nov 2018												1.9%	1.6%	1.9%	
May 2018												1.6%	1.9%	2.2%	
Nov 2017											2.1%	1.8%	2.6%		
Jun 2017											2.3%	2.4%	2.9%		
Nov 2016										2.8%	2.0%	2.3%			
May 2016										2.9%	3.4%	3.3%			
Nov 2015									3.4%	3.2%	2.7%				
May 2015									3.6%	3.2%	2.5%				
Nov 2014								4.8%	3.3%	3.1%					
May 2014								3.8%	3.2%	2.6%					
Nov 2013							2.2%	2.5%	2.5%						
Jul 2013							1.9%	2.4%	2.5%						
Nov 2012						0.9%	1.8%	2.4%							
Jun 2012						1.2%	1.9%	2.5%							
Nov 2011					1.4%	2.0%	2.4%								
May 2011					2.0%	2.6%	2.9%								
Oct 2010				1.6%	2.4%	2.9%									
Jun 2010				1.0%	2.8%	3.3%									
Oct 2009			-3.5%	-0.2%	1.5%										
Apr 2009			-2.7%	-0.2%	1.7%										
Oct 2008		0.8%	0.2%	1.9%											
May 2008		1.3%	1.8%	2.2%											
Oct 2007	3.3%	2.0%	2.6%												
Apr 2007	2.6%	2.8%	3.0%												
Oct 2006	3.0%	3.0%													
Apr 2006	2.6%	2.8%													
Oct 2005	2.6%														
Apr 2005	2.7%														

Source: Various London's Economic Outlooks

[85] This table only reports forecasts for 2007 onwards unlike Figure 5.3.

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, as far as is compatible with the individual definitions applied by the forecasters, ‘employment’ refers to ‘workforce employment’ as defined in, the ONS publication *Labour Market Trends*. *London’s Economic Outlook: December 2003* and *The GLA’s Workforce Employment Series* provide a more detailed explanation of this term.

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). Some forecasters still estimate GDP, which differs slightly from GVA. Imputed rental income from the ownership of property is included in some cases but not in others. 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 2017 from the ONS[86]. Most regional forecasters supply their own estimates of London’s real GVA. 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.

[86] ONS Regional GVA (balanced approach)

Appendix B: Glossary of acronyms

ADB	Asian Development Bank
BIS	The Bank for International Settlements
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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